

Industrias Bachoco S.A.B. de C.V.  
Form 20-F  
April 29, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**..ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
x 1934**

**For the fiscal year ended December 31, 2018**

**OR**

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**OR**

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report** \_\_\_\_\_

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number: 333-7480**

**INDUSTRIAS BACHOCO, S.A.B. DE C.V.**

**(Exact name of Registrant as specified in its charter)**

**Bachoco Industries**

**(Translation of Registrant's name into English)**

**The United Mexican States**

**(Jurisdiction of incorporation  
or organization)**

**Avenida Tecnologico 401**

**Ciudad Industrial, 38010**

**Celaya, Guanajuato, Mexico.**

**(Address of principal executive offices)**

Daniel Salazar Ferrer

Avenida Tecnologico No. 401

Ciudad Industrial C.P. 38010

Celaya, Guanajuato, Mexico

Telephone: (+011-52-461-618-3555)

Facsimile: (+011-52-461-611-6502)

Email: [inversionistas@bachoco.net](mailto:inversionistas@bachoco.net)

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing twelve Series B Shares.	New York Stock Exchange

**Securities registered or to be registered pursuant to Section 12(g) of the Act:** None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:** None

Indicate the number of outstanding Shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Series B Capital Stock: 600,000,000 Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup> The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	..	International Financial Reporting Standards as issued by the	Other
		International Accounting Standards Board	x

If "Other" has been checked in response to the previous question, indicate by check mark which financial statements item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 23 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

Yes  No

## TABLE OF CONTENTS

	<b>Page</b>
<b>Part I</b>	<b>7</b>
<u>Item 1. Identity of Directors, Senior Management and Advisers</u>	<u>7</u>
<u>Item 2. Offer Statistics and Expected Timetable</u>	<u>7</u>
<u>Item 3. Key Information</u>	<u>7</u>
<u>A. Selected Financial Data</u>	<u>7</u>
<u>B. Capitalization and Indebtedness</u>	<u>10</u>
<u>C. Reasons for the Offer and Use of Proceeds</u>	<u>10</u>
<u>D. Risk Factors</u>	<u>10</u>
<u>Item 4. Information of the Company</u>	<u>15</u>
<u>A. History and Development of the Company</u>	<u>15</u>
<u>B. Business Overview</u>	<u>17</u>
<u>C. Organizational Structure</u>	<u>27</u>
<u>D. Property, Plant and Equipment</u>	<u>27</u>
<u>ITEM 4. A. Unresolved Staff Comments</u>	<u>29</u>
<u>Item 5. Operating and Financial Review and Prospects</u>	<u>29</u>
<u>A. Operating Results</u>	<u>29</u>
<u>B. Liquidity and Capital Resources</u>	<u>40</u>
<u>C. Research and Development, Patents and Licenses, etc.</u>	<u>46</u>
<u>D. Trend Information</u>	<u>46</u>
<u>E. Off-Balance Sheet Arrangements</u>	<u>46</u>
<u>F. Tabular Disclosure of Contractual Obligations</u>	<u>46</u>
<u>G. Safe Harbor</u>	<u>47</u>
<u>Item 6. Directors, Senior Management and Employees</u>	<u>47</u>
<u>A. Directors and Senior Management</u>	<u>47</u>
<u>B. Compensation</u>	<u>54</u>
<u>C. Board Practices</u>	<u>54</u>
<u>D. Employees</u>	<u>55</u>
<u>E. Share Ownership</u>	<u>55</u>
<u>Item 7. Major Stockholders and Related Party Transactions</u>	<u>55</u>
<u>A. Major Shareholders</u>	<u>56</u>
<u>B. Related Party Transactions</u>	<u>57</u>
<u>C. Interests of Experts and Counsel</u>	<u>58</u>
<u>Item 8. Financial Information</u>	<u>59</u>
<u>A. Consolidated Statements and Other Financial Information</u>	<u>59</u>
<u>B. Significant Changes</u>	<u>60</u>
<u>Item 9. The Offer and Listing</u>	<u>60</u>
<u>A. Offer and Listing Details</u>	<u>60</u>
<u>B. Plan of Distribution</u>	<u>61</u>
<u>C. Markets</u>	<u>61</u>
<u>D. Selling Shareholders</u>	<u>61</u>
<u>E. Dilution</u>	<u>61</u>



<u>F.</u>	<u>Expenses of the Issue</u>	<u>61</u>
<u>Item 10.</u>	<u>Additional Information</u>	<u>61</u>
<u>A.</u>	<u>Share Capital</u>	<u>61</u>
<u>B.</u>	<u>Memorandum and Articles of Association</u>	<u>61</u>
<u>C.</u>	<u>Material Contracts</u>	<u>69</u>
<u>D.</u>	<u>Exchange Controls</u>	<u>69</u>
<u>E.</u>	<u>Taxation</u>	<u>69</u>
<u>F.</u>	<u>Dividends and Paying Agents</u>	<u>75</u>

<u>G.</u>	<u>Statement by Experts</u>	<u>75</u>
<u>H.</u>	<u>Documents on Display</u>	<u>75</u>
<u>I.</u>	<u>Subsidiary Information</u>	<u>75</u>
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>75</u>
<u>Item 12.</u>	<u>Description of Securities Other Than Equity Securities</u>	<u>76</u>
<u>A.</u>	<u>Debt Securities</u>	<u>76</u>
<u>B.</u>	<u>Warrants and Rights</u>	<u>77</u>
<u>C.</u>	<u>Other Securities</u>	<u>77</u>
<u>D.</u>	<u>American Depositary Receipts</u>	<u>77</u>
<b><u>Part II</u></b>		<b><u>79</u></b>
<u>Item 13.</u>	<u>Default, Dividend Arrearages and Delinquencies</u>	<u>79</u>
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	<u>79</u>
<u>Item 15.</u>	<u>Controls and Procedures</u>	<u>79</u>
<u>Item 16.</u>	<u>[Reserved]</u>	<u>81</u>
<u>ITEM 16. A.</u>	<u>Audit Committee Financial Expert</u>	<u>81</u>
<u>ITEM 16. B.</u>	<u>Code of Ethics</u>	<u>81</u>
<u>ITEM 16. C.</u>	<u>Principal Accountant Fees and Services</u>	<u>81</u>
<u>ITEM 16. D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>82</u>
<u>ITEM 16. E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>82</u>
<u>ITEM 16. F.</u>	<u>Changes in Registrant’s Certifying Accountant</u>	<u>83</u>
<u>ITEM 16. G.</u>	<u>Corporate Governance</u>	<u>84</u>
<u>ITEM 16. H.</u>	<u>Mine Safety Disclosure</u>	<u>87</u>
<b><u>Part III</u></b>		<b><u>87</u></b>
<u>Item 17.</u>	<u>Financial Statements</u>	<u>87</u>
<u>Item 18.</u>	<u>Financial Statements</u>	<u>87</u>
<u>Item 19.</u>	<u>Exhibits</u>	<u>87</u>
<u>Index of Exhibits</u>	<u>88</u>	

## **Introduction**

Industrias Bachoco, S.A.B. de C.V. is a holding company with no operations other than holding the stock of its subsidiaries. Our two main subsidiaries are Bachoco, S.A. de C.V. (“BSACV”), located in Mexico, and Bachoco USA, LLC (“Bachoco USA”) located in the United States of America (“United States” or “U.S.”).

References herein to “Bachoco,” “we,” “us,” “our,” “its” or the “Company” are, unless the context requires otherwise, to Industrias Bachoco, S.A.B. de C.V. and its consolidated subsidiaries as a whole.

Additionally, references herein to “OK Industries” or “OK Foods” are, unless the context requires otherwise, to Bachoco USA and its consolidated subsidiaries as a whole.

We are incorporated under the laws of the United Mexican States (“Mexico”), but we have operations in both Mexico and the U.S. Our principal executive offices are located in Mexico at Avenida Tecnológico 401, Ciudad Industrial, zip code 38010, Celaya, State of Guanajuato, Mexico, and our main telephone number is +52 (461) 618 3500 or +52 (461) 618 3555.

## **Presentation of Information**

### *Fiscal Year*

The fiscal year for Bachoco and its subsidiaries in Mexico ends in December each year. The fiscal year for Bachoco USA and its subsidiaries in the U.S. ends in April each year. Notwithstanding the foregoing, for purposes of our consolidated financial statements, the accounting year period for all the Company’s subsidiaries ends on December 31.

### *Currency*

Except as otherwise indicated, all data in the financial statements included below and in Item 18 (which together with the attached notes constitute our “Audited Consolidated Financial Statements”) and the selected financial information included throughout this Form 20-F (this “Annual Report”) have been presented in millions of nominal pesos unless otherwise indicated. References herein to “pesos” or “\$” are to the lawful currency of Mexico.

References herein to “U.S. dollar” or “USD” are to the lawful currency of the United States of America.

This Annual Report contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from pesos at an exchange rate of \$19.67 to USD1.00 (one U.S. dollar), the exchange rate on December 31, 2018, according to the *Banco de México* (the “Mexican Central Bank”).

#### *Accounting Practices*

In January 2009, the *Comisión Nacional Bancaria y de Valores* (Mexican Banking and Securities Commission or “CNBV”) published certain amendments to the Rules for Public Companies and other participants in the Mexican Securities Market that require public companies to report financial information in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective as of January 1, 2012. Following these amendments, on January 1, 2012, we adopted IFRS, meeting the CNBV requirements.

Our Audited Consolidated Financial Statements included elsewhere in this Annual Report have been prepared in accordance with IFRS, as issued by the IASB.

The rules and regulations of the Securities and Exchange Commission (the “SEC”), do not require foreign private issuers that prepare their financial statements on the basis of IFRS (as published by the IASB) to reconcile such financial statements to generally accepted accounting principles in the United States of America (“U.S. GAAP”). As such, while Bachoco has in the past reconciled its consolidated financial statements prepared in accordance with Mexican Financial Reporting Standards (MFRS) to U.S. GAAP, those reconciliations are no longer presented in Bachoco’s filings with the SEC.

### *Other References*

Bachoco’s production volume is measured in “tons”, which term refers to metric tons of 1,000 kilograms, equal to 2,204.6 pounds.; the term “billion” refers to one thousand million (1,000,000,000).

### *Non-GAAP Financial Measures*

The body of generally accepted accounting principles is commonly referred to as “GAAP.” For this purpose, a non-GAAP financial measure is generally defined by the SEC as a numerical measure of a company’s historical or financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, statement of financial position or statement of cash flows (or equivalent statements) of the company; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

The Company discloses in this Annual Report the so-called non-GAAP financial measures of EBITDA result, EBITDA margin, and net debt. EBITDA result is defined as profit before income tax expense (benefit), financial income (expense), net and depreciation. EBITDA margin is defined as EBITDA result divided by total net revenues. Net debt is defined as long-term debt (including the current portion) plus short term debt minus cash and cash equivalents, primary financial instruments and derivative financial instruments. The non-GAAP financial measures of EBITDA result and EBITDA margin are not substitutes for the GAAP measure of profit for the year. Rather, these measures are provided as additional information to complement the GAAP measure of profit for the year by providing further understanding of the Company’s results of operations from management’s perspective. Additionally, the non-GAAP financial measure of net debt is not a substitute for the GAAP measure of total debt. Rather, this measure is provided as additional information to contemplate the GAAP measure of total debt by providing further understanding of the Company’s debt obligations. Accordingly, EBITDA result, EBITDA margin and net debt should not be considered in isolation or as substitutes for an analysis of the Company’s financial performance, liquidity or debt obligations.

Company management believes that disclosure of these non-GAAP measures are an important supplemental measure of the Company's operating performance and debt obligations because investors, financial analysts and other interested parties frequently use EBITDA and net debt in the evaluation of other companies in the same industry in which the Company operates.

## Market Data

This Annual Report contains certain statistical information regarding the Mexican chicken, egg and balanced feed (or "feed") markets. We have obtained this information from a variety of sources, including but not limited to; *Unión Nacional de Avicultores* (the National Poultry Association or "UNA"), the *Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición Animal, A.C.* (or "CONAFAB"), the U.S. Department of Agriculture (or "USDA"), and the Mexican Central Bank, among others.

Other sources of statistical information used by the Company include *Consejo Mexicano de Porcicultura* (the Mexican Pork Council or "CMP"), *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación* (Ministry of Agriculture, Livestock, Rural Development, Fishing and Food or "SAGARPA"), among others.

The producers' associations rely principally on data provided by their members. Information for which no source is cited was prepared by us on the basis of our knowledge of the Mexican chicken, egg, feed, turkey and swine markets and the wide variety of information available regarding these markets. The methodology and terminology used by different sources are not always consistent, and data from different sources are not readily comparable.

## Forward-looking Statements

We may from time to time make written or oral forward-looking statements in our periodic reports to the SEC on Forms 20-F and 6-K, in our Annual Report to stockholders, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by one of our officers, directors or employees to analysts, institutional investors, representatives of the media and others.

Examples of such forward-looking statements include, but are not limited to: (i) projections of revenues, income (or loss), earnings (or loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios; (ii) statements of our plans, objectives or goals or those of our management, including those relating to new contracts; (iii) statements about future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believe,” “anticipate,” “plan,” “expect,” “intend,” “target,” “estimate,” “project,” “predict,” “forecast,” “guidel” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties, and a number of unexpected changes could cause actual results to deviate from our plans, objectives, expectations, estimates and intentions. We recognize that the accuracy of our predictions and our ability to follow through on our intentions depend on factors beyond our control. The potential risks are many and varied, but include unexpected changes in: economic, weather and political conditions, raw material prices, competitive conditions, and demand for chicken, eggs, turkey, balanced feed, beef and swine.

**Part I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

The financial information set forth below is derived from our Audited Consolidated Financial Statements, which are included in Item 18. We provide details on the figures and year-to-year changes in our Audited Consolidated Financial Statements.

The tables below present our key financial information for the fiscal years indicated. Except as otherwise indicated, the amounts are presented in millions of nominal pesos, except per share amounts, which are presented in pesos.

**STATEMENT OF PROFIT OR LOSS DATA**

In millions, for the year ended December 31,	2018	2018	2017	2016	2015	2014
	USD	\$	\$	\$	\$	\$
Net revenues	3,103.8	61,052.1	58,050.0	52,020.3	46,229.0	41,779.1
Cost of sales	2,614.3	51,422.4	47,503.0	42,635.1	36,847.5	32,495.0
Gross profit	489.6	9,629.7	10,547.1	9,385.2	9,381.5	9,284.1
General, selling and administrative expenses	306.3	6,024.4	5,423.4	4,847.9	4,323.4	3,781.3
Other income (expenses), net	5.2	102.7	167.6	260.2	(4.6 )	(160.9 )
Operating income	188.5	3,708.0	5,291.3	4,797.6	5,053.5	5,341.9



Edgar Filing: Industrias Bachoco S.A.B. de C.V. - Form 20-F

Net finance income	41.1	808.6	747.6	797.0	446.6	246.9
Income tax	58.7	1,155.0	1,084.4	1,643.4	1,680.6	1,656.1
Profit attributable to controlling interest	170.3	3,350.0	4,948.2	3,946.6	3,812.8	3,926.9
Profit attributable to non-controlling interest	0.6	11.6	6.2	4.5	6.7	5.7
Profit for the year	170.9	3,361.6	4,954.4	3,951.2	3,819.5	3,932.7
Basic and diluted earnings per share <sup>(1)</sup>	0.28	5.58	8.25	6.58	6.36	6.55
Basic and diluted earnings per ADR <sup>(2)</sup>	3.41	67.00	98.97	78.90	76.30	78.66
Dividends per share <sup>(3)</sup>	0.072	1.420	1.300	1.300	1.500	0.000
Weighted average shares outstanding <sup>(4)</sup>	599,981	599,981	599,998	599,980	599,631	599,955

- (1) Calculated based on the weighted average number of basic and diluted shares. No potentially dilutive shares exist in any of the years presented, for which reason, basic and diluted earnings per share are the same.
- (2) Each ADR represents twelve shares.
- (3) Dividends per share have been computed by dividing the total amount of dividends paid by the weighted average shares outstanding.
- (4) In thousands of shares.

## STATEMENT OF FINANCIAL POSITION DATA

In millions as of December 31,	2018	2018	2017	2016	2015	2014
	USD	\$	\$	\$	\$	\$
Total assets	2,687.6	52,865.6	50,557.4	45,090.5	40,446.6	34,843.1
Cash and cash equivalents	910.1	17,901.8	16,112.3	14,681.2	14,046.3	11,036.1
Total liabilities	747.3	14,699.9	14,879.5	13,374.3	12,667.2	10,481.1
Short-term debt <sup>(1)</sup>	177.6	3,492.8	3,695.1	3,097.5	1,631.9	798.0
Long-term debt	78.5	1,544.8	1,554.0	950.4	2,495.1	1,652.5
Total stockholders' equity	1,940.3	38,165.7	35,677.9	31,716.2	27,779.4	24,362.1
Capital stock	59.7	1,174.4	1,174.4	1,174.4	1,174.4	1,174.4

(1) Includes notes payable to banks and current installments of long term debt.

## MARGINS

In percentage, for the years ended December 31,	2018	2017	2016	2015	2014
Gross margin	15.8%	18.2%	18.0%	20.3%	22.2%
Operating margin	6.1 %	9.1 %	9.2 %	10.9%	12.8%
Net margin for the year	5.5 %	8.5 %	7.6 %	8.4 %	9.4 %

## *Other Indicators*

The tables set below present key indicators.

## VOLUME SOLD BY OPERATING SEGMENT

In thousands of tons, as of December 31,	2018	2017	2016	2015	2014
Total sales volume:	2,234.8	2,201.4	2,122.8	2,034.3	1,841.4
Poultry	1,770.1	1,723.8	1,668.6	1,613.4	1,495.0
Others	464.7	477.6	454.2	420.9	346.4

***Gross Domestic Product, Inflation Rate and CETES***

The chart below includes Mexican gross domestic product (“GDP”) and inflation rate data from 2014 to 2018, and the average interest rates on 28-day Mexican treasury bills (“CETES”), as provided by the Mexican Central Bank.

***Gross Domestic Product***

Mexico has experienced economic growth in the last five years, but to varying degrees. In 2018, the Mexican GDP was 2.0%. In each of 2017 and 2016, Mexican GDP was 2.3%, in 2015 and 2014 it was 2.5% and 2.1% respectively.

***Interest Rates***

Mexico historically has had, and may continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities averaged 7.6%, 6.7%, 4.2%, 2.9% and 2.7% for 2018, 2017, 2016, 2015 and 2014, respectively. High interest rates in Mexico could increase our financing costs and thereby impair our financial condition, results of operations and cash flow.

***Inflation Rates***

The annual rate of inflation, as measured by changes in the Mexican National Consumer Price Index, or NCPI, was 4.83% in 2018, 6.77% in 2017, 3.36% in 2016, 2.13% in 2015, and 4.08% in 2014, according to the Mexican Central Bank. An adverse change in the Mexican economy may have a negative impact on price stability and result in higher inflation than its main trading partners, including the United States.

**GDP, INFLATION RATE AND CETES DATA**

Year	GDP	Inflation Rate	CETES
2018	2.0 %	4.83 %	7.6 %
2017	2.3 %	6.77 %	6.7 %
2016	2.3 %	3.36 %	4.2 %
2015	2.5 %	2.13 %	2.9 %
2014	2.1 %	4.08 %	2.7 %

On March 28, 2019, the 28-day CETES rate was 7.85%.

***Exchange Rates***

As of December 31, 2018, the exchange rate for the year end published by the Mexican Central Bank was \$19.67 per one U.S. dollar. On March 29, 2019, the exchange rate for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York was \$19.40 per one U.S. dollar.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors**

The Company is exposed to a wide range of risks. Note that the order in which the below risks are described does not necessarily reflect the effect that any of the below risks would have on the Company.

**Risks Related to Economic, Political and Regulatory Conditions**

Bachoco's core businesses are conducted in Mexico and in the United States and, therefore its performance depends on, among other factors, the economic conditions prevailing in those countries, and particularly in Mexico. The Company's risk exposure related to economic conditions includes risks related to economic performance, exchange rates, interest rates, as well as other political, economic and social events that may negatively affect the Company's performance and may result in lower demand for, and lower real pricing of, our products.

Additionally, the Mexican economy continues to be heavily influenced by the U.S. economy, therefore, deterioration in economic conditions in the U.S. economy may affect the Mexican economy. Prolonged periods of weak economic conditions in Mexico may have, and in the past have had, a negative effect on our Company and a material adverse effect on our results and financial condition.

***Unfavorable economic conditions in Mexico or the United States, such as a recession or increases in interest and inflation rates, could have an adverse effect on our financial performance.***

If the Mexican or U.S. economies experience a high inflation rate, recession or economic slowdown, consumers may not be able to purchase our products as usual, especially in Mexico, where these factors have a direct impact on the consumers. As a consequence, our earnings may be adversely affected.

High interest rates in Mexico or in the U.S. could adversely affect our costs and our earnings due to the impact those changes have on our variable-rate debt instruments. Alternatively, we may benefit from the interest we earn on our cash balance. Mexico historically has had, and may continue to have, high real and nominal interest rates.

A strong variation in the exchange rates between the peso and the U.S. dollar could negatively affect our financial results, as a greater percentage of our sales are made in pesos, and a large percentage of our raw material purchases are made in U.S. dollars.

Furthermore, the Company could be adversely affected by negative economic conditions prevalent in the U.S. or other countries, even when economic conditions in such countries may differ significantly from economic conditions in Mexico, as investors' reactions to developments in any of these other countries may have an adverse effect on our securities. Consequently, the market value of our securities may be adversely affected by events taking place outside of Mexico or the U.S.

***Political events and regulatory changes in Mexico could affect Mexican economic conditions and negatively affect our operations.***

The Company has operations in both Mexico and the U.S. However, it is incorporated under the laws of Mexico, where a greater percentage of its sales are made. Accordingly, we foresee an impact mainly from negative developments in the political, regulatory and economic conditions in Mexico.

In July 2018, Andrés Manuel López Obrador of the *Movimiento Regeneracion Nacional* was elected as President of Mexico. After taking office, there has been some uncertainty regarding his political decisions and their potential effect on the Mexican economy. While in the short term there has been some economic volatility, it is still unclear what the effects on the Mexican economy would be of President Obrador's policies.

The direct correlation between economic conditions in Mexico and the U.S. has strengthened in recent years because of the North American Free Trade Agreement, (“NAFTA”) now United States – Mexico – Canada Agreement (“USMCA”). During 2017 the renegotiation process of NAFTA began between U.S., Canada and Mexico. The three countries reached an agreement in November 2018, but the USMCA still needs to be ratified by the congressional bodies in Mexico, the United States and Canada. As for the industry in which we compete, the trade agreement remained practically unchanged. Because the Mexican economy is heavily influenced by the U.S. economy, any potential re-negotiation, or non-ratification, of USMCA and/or other U.S. government policies that may be adopted by the U.S. administration (which may result in regulatory gridlock or on the contrary, it could result in a major regulatory change) could have a material adverse effect on the Mexican economy, which, in turn, could affect our business, financial condition and results of operations.

***International trade policies may impact demand for our products and our competitive position.***

Government policies on international trade and investment, such as sanctions, import quotas, capital controls or tariffs, whether adopted by individual governments, multinational organizations or addressed by regional trade blocs, may affect the demand for our products lines, impact the competitive position of our products or prevent us from being able to sell products in certain countries. The implementation of more protectionist trade policies, such as more detailed inspections, higher tariffs, or new barriers to entry, in countries where we sell products could negatively impact our business, results of operations and financial position. For example, trade disputes between the U.S. and Mexico could negatively affect demand for export products from both countries and directly or indirectly affect the markets in which we compete.

***Government regulations in Mexico and the U.S. could cause a material increase in the Company’s costs of operations and thus could have a negative impact on our results of operations.***

Every region in which Bachoco operates is subject to extensive federal, state and foreign laws and regulations that govern the production, packaging, storage, moving and marketing in the food industry and the poultry industry in particular, including several provisions relating to the discharge of materials into the environment.



We may be subject to fines, closures of our facilities, asset seizures, injunctions or criminal sanctions if we are held by a court of competent jurisdiction to be non-compliant with any of the applicable laws and regulations.

The adoption of new regulations or changes in the prevailing regulatory environment governing the food industry may entail restrictions in the daily operation of our Company, or increases in our expenses or production costs, conditions that could negatively affect our financial results.

Additionally, the imposition of new taxes or changes in the existing tax laws or rates in Mexico or the U.S. could have an adverse impact on our operations and, as a result, negatively affect our financial results.

***Risks Related to Bachoco and the Poultry Industry***

The poultry industry in Mexico and the U.S., as well as the chicken industry in other countries, has undergone cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and profitability.

The market that we serve is subject to volatility with respect to supply and raw material prices, which affects our product prices. We cannot provide assurance that future cyclical, excess supply, increases in main raw materials prices, or downturns in real prices will not adversely affect our financial results.

The largest single component of our cost of sales is the cost of grains used to prepare balanced feed, including sorghum and corn, and some other ingredients such as: soybean meal and marigold extract, among others.

***Increase or volatility in main raw materials prices may adversely affect our operating and financial results.***

The price of most of these raw materials is subject to significant volatility resulting from weather conditions, the size of harvests, governmental agricultural policies, currency exchange rates, transportation, storage costs, and other factors.

Furthermore, the cost of corn in the U.S. may be affected by an increase in the demand both of ethanol and feed production, which can reduce the supply of corn in the U.S. market, adversely affecting our operations in the U.S.

High prices or volatility in main raw materials could adversely affect our production costs and, therefore, our financial results.

*Supply, demand and the prices we are able to charge for our products may fluctuate due to competition from other food producers and the economic performance in the countries we are present may adversely affect our operating and financial results.*

Excess in chicken or eggs supply caused by increases in production from our competitors coupled with a weak demand for our products in the markets we operate in may result in a downturn in prices for these products, and as a result, our operating margins and financial results could be negatively affected.

We face competition from other chicken producers in all markets in which we sell our products. These chicken producers have the financial resources and operating strengths to directly compete with our Company. We expect to continue to face strong competition in every market, as our existing or new competitors are likely to broaden their product lines and extend their geographic markets. Accordingly, we can provide no assurance that our performance will not be adversely affected by increased competition.

***Raising animals and meat processing involve animal health and disease control risks, which can have an adverse impact on our results of operations.***

Our operations in Mexico and in the U.S. depend on raising animals and meat processing, which are subject to risks such as diseases (like different types of avian flu) and contamination during production, packaging, storage or distribution processes. Such diseases may cause bans from countries we export to. Any such ban could affect export prices, and therefore our financial results.

Live chickens and swine are susceptible to infections by a variety of microbiological agents that may result in higher mortality rates, affecting our earnings and financial results.

Our chicken, turkey, beef and eggs products are subject to contamination during processing, packaging, distribution or conservation. Potential contamination of our products during processing, however, could affect a larger number of our products, which may have a significant impact on our results.

***Natural disasters such as hurricanes, tornadoes or earthquakes may result in additional losses of inventory and damage to our plants and equipment.***

Natural disasters could significantly damage our facilities. Our facilities in Mexico are susceptible mainly to earthquakes and hurricanes. Our facilities near Mexico's coast are most vulnerable to the risk of severe weather. Our U.S. facilities are located in Georgia, Alabama, Arkansas and Oklahoma, a region vulnerable to being hit by tornadoes. Extensive damage to these facilities could affect our ability to conduct our regular production and, as a result, reduce our operation results.

***Our growth through mergers, acquisitions or joint ventures may be impacted by challenges in integrating significant acquisitions.***

We have made in the past, and may make in the future, certain acquisitions in order to continue our growth. Acquisitions involve risks, including, among others, the following: failure of acquired businesses to achieve expected results, inability to retain or hire key personnel of acquired businesses, inability to retain the same client and supplier base and inability to achieve expected synergies and/or economies of scale. If we are unable to successfully integrate or manage our acquired businesses, we may not realize anticipated cost savings and revenue growth, which may result in reduced profitability or losses.

***Elimination of tariff barriers may adversely affect our performance.***

U.S. producers may increase exports to Mexico because chicken, eggs and swine are free of import quotas to Mexico according to the USMCA. Poultry producers in the United States have developed low cost production methods and have been successful in exporting primarily frozen and value-added poultry to other countries, especially in periods of overcapacity in the United States, a condition that could have a material adverse effect on our performance in Mexico.

***Regulations on animal health and environmental changes in Mexico could affect Mexican poultry industry conditions and, as a consequence, negatively affect the Company.***

Our processes are subject to several animal health and environmental regulations that include animal raising, transportation, packaging, storage and distribution regulations. Drastic changes in any of these regulations could negatively affect our daily operations and ability to supply our products, as a consequence, affect our financial results. Changes in regulations may also require the implementation of new processes or equipment to comply with the new regulations, a condition that may negatively affect our liquidity, as our capital investments could increase.

***Our inability to maintain good relationships with our work force and its labor union may affect our processes, and as a consequence, our financial results.***

If we are unable to maintain good relations with our employees and with our labor union we may be faced with significant work stoppages as a result of labor problems, a condition that may affect our processes and our operating results.

***Risks relating to Bachoco's investors and its American Depositary Receipts (or ADRs)***

The Robinson Bours family owns 73.25% of our total shares outstanding and their interests may differ from other security holders. With that percentage they hold the power to elect a majority of the members of our board of directors and have the power to determine the outcome of certain other actions requiring the approval of our stockholders, including whether or not dividends are to be paid and the amount of such dividends.

The Company trades its ADRs on the New York Stock Exchange ("NYSE") with each ADR representing twelve common shares.

The prevailing market prices for the ADRs and the shares could decline if the Robinson Bours family sold substantial amounts of their shares, whether directly, or indirectly, through two Mexican trusts through which they hold their shares, or if the perception arose that such a sale could occur. See Item 7 for more details about the Company's trusts.

The market value of our securities may be affected by economic and market conditions prevailing in any other country, although economic conditions in such countries may differ significantly from economic conditions in Mexico. Investors' reactions to developments in any of these other countries may have an adverse perception and, consequently, the market value of our securities may be adversely affected by events elsewhere.

***Payment of cash dividends may be affected by the exchange rate of the peso versus the U.S. dollar.***

Because we pay cash dividends in pesos, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADRs upon conversion of such cash dividends by the Bank of New York (BNY) Mellon, who acts as our Depositary Bank.

***The protection afforded to non-controlling stockholders in Mexico is different from that in the United States.***

Under Mexican law, the protection afforded to minority stockholders is different from that in the United States. In particular, the law concerning fiduciary duties of directors is not well developed, there is no procedure for class actions or stockholder derivative actions, and there are different procedural requirements for bringing stockholder lawsuits. As a result, in practice, it may be more difficult for the minority stockholders of Bachoco to enforce their rights against us or our directors or our controlling stockholders than it would be for stockholders of a U.S. company.

***Our bylaws restrict the ability of non-Mexican stockholders to invoke the protection of their governments with respect to their rights as stockholders.***

As required by Mexican law, our bylaws provide that non-Mexican stockholders shall be considered as Mexicans with respect to their ownership interests in Bachoco and shall be deemed to have agreed not to invoke the protection of their governments in certain circumstances. Under this provision, a non-Mexican stockholder is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the stockholder's rights as a stockholder, but is not deemed to have waived any other rights it may have, including any rights under the U.S. federal securities laws, with respect to its investment in Bachoco. If you invoke such governmental protection in violation of this agreement, your shares could be forfeited to the Mexican government.

***Our bylaws may only be enforced in Mexico.***

Our bylaws provide that legal actions relating to the execution, interpretation or performance of the bylaws may be brought only in Mexican courts. As a result, it may be difficult for non-Mexican stockholders to enforce their stockholder rights pursuant to the bylaws.

***It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons.***

We are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. As a result, it may be difficult for investors to affect service of process within the United States on such persons or to enforce judgments against them. This includes any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts of liabilities based solely on the U.S. federal securities laws.

***Non-Mexican stockholders may not be entitled to participate in future preemptive rights offerings.***

Under Mexican law and our bylaws, if we issue new shares for cash as part of a capital increase, we must grant our stockholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in the Company (“preemptive rights”). We can allow holders of ADRs in the United States to exercise preemptive rights in any future capital increase only in one of the following two circumstances: (i) we file a registration statement with the SEC with respect to that future issuance of shares; or (ii) the offering qualifies for an exemption from the registration requirements of the Securities Act of 1933, as amended.

We make no promises that we will file a registration statement with the SEC to allow holders of ADRs in the United States to participate in a preemptive rights offering. As a result, the equity interests of such holders in the Company may be diluted proportionately. In addition, under current Mexican law, it is not practicable for the depositary to sell preemptive rights and distribute the proceeds from such sales to ADR holders.

**Item 4. Information of the Company**

**A. History and Development of the Company**

## Edgar Filing: Industrias Bachoco S.A.B. de C.V. - Form 20-F

The Company was legally formed in Mexico as Industrias Bachoco, S.A.B. de C.V., on April 17, 1980, in Obregón, State of Sonora, Mexico, and is frequently referred to as Bachoco.

We are incorporated under the laws of Mexico, but we have operations in both Mexico and the U.S. Our principal executive offices are located in Mexico at Avenida Tecnológico 401, Ciudad Industrial, zip code 38010, Celaya, State of Guanajuato, Mexico, and our telephone number is +52 (461) 618 3500.

Our investor relations department is located at the address above and can be reached by email at [inversionistas@bachoco.net](mailto:inversionistas@bachoco.net) or by telephone at +52 (461) 618 3555.

The SEC maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be viewed on the SEC Internet site (<http://www.sec.gov>) and on our website ([www.bachoco.com.mx](http://www.bachoco.com.mx)). However, the content of our website is not incorporated by reference into this annual report.

Our operating segments, which are comprised of our product lines, are identified on the basis of our core principles in accordance with IFRS 8.10. Accordingly, our operating segments are comprised of the following five components: chicken, eggs, pork, balanced feed and other meat products. The chicken and eggs segments meet, in an aggregate basis, the quantitative thresholds for separate reporting, while the pork, balanced feed and other meat products lines are immaterial, both on an individual and aggregate basis, and have therefore been reported on a combined basis in the “other operating segments” category. We have aggregated the chicken and eggs operating segments into one reportable segment. As a result, we end up with two reportable operating segments, “Poultry” and “Others”.



*Important events in the development of the Company's business*

We were founded in 1952 and have grown from a small commercial table egg operation in the state of Sonora into a vertically integrated Company and the leading poultry company in Mexico as well as, in our opinion, one of the most important poultry companies worldwide.

In 1963, we started operations in the cities of Navojoa, Los Mochis and Culiacán, producing just table eggs. In 1971, we commenced the production of chicken in an operating facility that we opened in the city of Culiacán.

In 1974, we established a new complex in Celaya, Guanajuato, Mexico and in 1980 we legally incorporated as Industrias Bachoco, S.A.B. de C.V., in Obregón, State of Sonora, Mexico. As our products were increasingly widely accepted, we opened offices and distribution centers in Mexico City. In 1993, we moved our headquarters from Obregón to Celaya city, and opened a new complex in the city of Tecamachalco, in the Southeast of Mexico.

In 1994, we continued expanding our coverage, this time with a new complex in Lagos de Moreno city, in the Western Mexico. By 1994, we had four productive complexes strategically located throughout Mexico and an important presence in the Mexican poultry market share.

In September 1997, we began trading on the Mexican Stock Exchange (or "BMV") and on the NYSE, through our ADR Level III Facility.

Furthermore, in December, 1999, we acquired Campi. With this acquisition we entered the chicken market in the South of Mexico, starting a new business line selling balanced feed to third parties. In 2001, we established our sixth productive complex in Gomez Palacio city, located in the Northeast of Mexico.

In December 2006, we acquired most of the assets and inventories of Del Mezquital to start a new complex in Hermosillo city, located in Northern Mexico, close to the border with the United States.

In 2007, through a business agreement with Grupo Libra and Grupo Agra we entered in a new business, the sales of turkey and beef value-added products, and increased our production capacity of table eggs. Both companies are located in the Northeast of Mexico.

In 2009, we made diverse business agreements with companies located at the Northeast of Mexico. Specifically, to improve capacity and efficiency in our Northeast production complex headquartered in Monterrey, we: (i) acquired the assets of a balanced feed mill and a soybean processing plant from Productora de Alimentos Pecuarios de Nuevo León; (ii) acquired the assets of a chicken processing plant from Avi Carnes Monterrey; (iii) entered into agreements to rent breeder farms and egg incubation plants from Reproductoras Asociadas, and one-day-old breeder capacity farms and egg incubation plants from Producción Avícola Especializada; and (iv) made arrangements with contract growers to acquire their inventories.

In August 20, 2011, we acquired Trosi de Carnes, S.A. de C.V. (or “Trosi”); this facility is located in Monterrey, Northern Mexico. Trosi produces and sells processed beef and chicken.

On November 1, 2011, the Company entered the U.S. market and increased its export business with the acquisition of the American poultry company, OK Foods. This company has operations across the River Valley area in Arkansas and Oklahoma. It supplies grocery retailers, food service distributors and commodity customers throughout the U.S. as well as foreign markets. Our U.S. subsidiary, Bachoco USA, is the holding company of OK Foods.

In December 2011, the Company carried out a transaction to buy certain property assets of Mercantil Agropecuaria Coromuel, S.A. de C.V. (or “MACSA”), whereby, the Company reinforced its presence in the State of Baja California in Mexico, with three distribution centers.

In July 2013, the Company reached an agreement to acquire the Arkansas breeding assets of Morris Hatchery Inc., a U.S. company. These assets comprise mainly of equipment and bird inventory (laying hens that produce hatching eggs).

In July 2015, the Company reached an agreement to acquire the Georgia breeding assets of Morris Hatchery Inc. These assets comprise mainly equipment and bird inventory (laying hens that produce hatching eggs), with a capacity of approximately one million laying hens. See Notes 4 and 12 of our Audited Consolidated Financial Statements for more detail.

In December 2015, the Company reached an agreement to acquire the Oklahoma City Fully Cooked facility from American Foods Group, a U.S. Company. This acquisition comprises all the American Foods Group's Chicken assets located in Oklahoma City, with a capacity to produce over 700,000 pounds per week of fully cooked chicken products. The Company closed the transaction in February through its subsidiary, OK Foods.

In 2017, the Company made two acquisitions: a) Proveedora La Perla S.A. de C.V. (hereinafter "La Perla"), a pet food plant located in central Mexico. This acquisition includes all the La Perla's assets owned in the State of Queretaro, Mexico. These assets have the capacity to produce over 65,000 tons a year of dry pet food and comprise a facility for producing pet food treats and b) Albertville Quality Foods Inc. (hereafter "AQF") a U.S. company located in the State of Alabama that produces and sells value-added further processed products. This acquisition comprises two value-added, further processing plants. We merged AQF with OK Foods, Inc. at the end of 2017, and thus it is not operating as a separate subsidiary.

### ***Capital Expenditures***

We finance most of our capital expenditures with resources generated by our operations.

The following is a summary of the capital expenditures incurred by the Company during the periods covered by this Annual Report with the amounts having been computed under IFRS.

In 2018, we made capital expenditures of \$1,982.6, which were mainly allocated towards our organic growth plans, productivity and upgrading bottle necks in different parts of our process.

In 2017, we made capital expenditures of \$3,513.4, which were mainly allocated towards our organic growth plans and the acquisitions made during the year as described above.

In 2016, we made capital expenditures of \$2,459.7, which were mainly allocated towards our organic growth plans by investing in projects that will make our processes more efficient, alleviating bottlenecks, as well as in the replacement

of part of our transportation fleet and of other equipment in all of our facilities.

Our capital expenditures in 2015 totaled \$1,824.5 million, which was mainly allocated toward organic growth, by continued alleviating bottlenecks in some of our process and productivity projects across all of our facilities as well as our acquisition of the Georgia breeding assets of Morris Hatchery Inc.

At present, as part of its regular course of business, the Company continues with its replacement of equipment and productivity projects.

## **B. Business Overview**

### *General*

Bachoco owns and manages more than a thousand facilities, organized in nine production complexes and more than 80 distribution centers in Mexico, and one production complex in the United States.

We participate in the food industry in Mexico and in the U.S., mainly in the poultry industry.

We are the leader in the Mexican poultry industry, and one of the largest poultry producers globally. In 2011, we entered the U.S. chicken market through our acquisition of OK Foods.

In Mexico, our core business is poultry (chicken and egg products), but we also produce and sell a wide range of other products which we refer to as “others” which include, among others, the production and selling of balanced feed, pet food, live swine, beef and turkey value-added products, one day old breeders and chicks, as well as a laboratory that produces vaccines for the poultry industry as well as other similar industries.

Sales generated by these other product lines, except for balanced feed/pet food sales, each on an individual basis, do not represent more than 1.0% of our total sales.

In the United States, our sole product line is almost exclusively chicken products.

In the recent years, we have not experienced material changes in the development or production of our products.

***Principal Markets***

We operate mainly in Mexico and in the U.S. We estimate that we are the biggest producer of chicken products in Mexico. Based on our internal estimates, we currently account for approximately 35.0% of the Mexican chicken production market and are the second largest producer of eggs with an estimated market share of approximately 5.1%. We currently estimate that we have approximately 3.2% market share in the balanced feed products.

As noted previously, in the U.S. we produce and distribute chicken products only. Based on our internal estimates, we currently account for approximately 1.9% of the chicken production market.

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, as of December 31, 2018, 2017 and 2016:

**NET REVENUES BY OPERATING SEGMENTS**

In millions of pesos, for the year ended December 31,	2018		2017		2016	
	\$	%	\$	%	\$	%
Net Revenues	61,052.1	100	58,050.0	100	52,020.3	100

Poultry	55,308.1	90.6	52,479.4	90.4	46,852.5	90.0
Others	5,744.0	9.4	5,570.6	9.6	5,167.8	10.0

Our poultry operating segment is our largest product line in terms of revenue. Within our poultry operating segment, our main product lines are chicken and eggs, which are described in more detail in the following paragraphs. Within our “Others” segment, our main product line is balanced feed, which is also described in more detail in the following paragraphs.

Overview of the Chicken Industry in Mexico

According to the UNA, chicken products are the main source of protein consumed in Mexico.

Mexico is among the ten main chicken producers worldwide, with an estimated production of 3,470.7 thousand tons of chicken meat in 2018, and a per capita consumption of 32.5 kilograms a year in 2018, a 0.8% increase from 32.2 kilograms a year in 2017.

Fresh chicken is the most popular meat consumed in Mexico. According to the UNA, more than 90% of chicken is sold fresh, and just a small percentage is sold frozen and with value added (marinated, breaded, partially cooked and fully cooked, among others). These products have found limited acceptance among Mexican consumers due to tradition and historical consumer preferences for fresh chicken.

We estimate that we are Mexico's largest chicken producer with around 35.0% share of the chicken production market, and when combined with our largest vertically integrated competitor in Mexico, we account for approximately 60.0% of total Mexican poultry production.

According to the USDA, Mexico is a main destination for U.S. chicken exports. Chicken imports from the U.S. have increased from 204.1 thousand tons in 2008 (when restrictions for leg quarters imports were phased out in January 2008) to approximately 418.7 thousand tons in 2018.

In particular, in 2018 total chicken imports remained practically identical to total chicken imports in 2017.

Chicken products in Mexico are classified into six main categories: live, public market, rotisserie, supermarket broiler, chicken parts and value-added products. Bachoco operates in all these categories. For a better understanding of the chicken market in Mexico, following is a brief description of each category of chicken products:

**Live chicken** is sold live to small independent slaughtering operations or to wholesalers that contract with independent slaughtering operations for processing.

**Public market chicken** is a whole broiler presented either un-eviscerated or eviscerated, generally sold within 48 hours after slaughter. This product is sold to consumers without any packaging or brand identification.

- **Rotisserie chicken** is a whole broiler presented eviscerated and ready to cook.

- **Supermarket chicken** is a fresh whole broiler presented with the edible viscera packed separately.

**Chicken cuts** refers to cut-up fresh chicken parts sold wrapped in trays or in bulk principally to supermarket chains, the fast-food industry and other institutional food service providers.

- **Value-added products** refer mainly to cut-up fresh chicken parts with value-added treatment like marinating, breading and individual quantity frozen.

While we operate in all six of these chicken categories, our product mix varies from region to region, reflecting different consumption and distribution patterns.

**SALES AND VOLUME OF CHICKEN BY CATEGORY**

In 2018	<b>Industry /volume<sup>(1)</sup></b>	Bachoco /volume	Bachoco /sales
Live	n/a	40	32
Public market	n/a	11	11
Rotisserie	n/a	28	29
Supermarket	n/a	4	5
Chicken parts	n/a	12	14
Value-added products	n/a	5	9

In 2017	<b>Industry /volume<sup>(2)</sup></b>	Bachoco /volume	Bachoco /sales
Live	37	41	32
Public market	11	11	11
Rotisserie	35	24	26
Supermarket	5	5	5
Chicken parts	9	12	14
Value-added products	3	8	13



In 2016	Industry /volume <sup>(2)</sup>		Bachoco /volume		Bachoco /sales	
Live	37	%	39	%	32	%
Public market	11	%	13	%	13	%
Rotisserie	32	%	23	%	24	%
Supermarket	5	%	5	%	5	%
Chicken parts	10	%	11	%	13	%
Value-added products	5	%	9	%	14	%

(1) Industry information for 2018 is not available as of the date of this report.

(2) Source: UNA.

### Overview of the Chicken Industry in the U.S.

According to the USDA and the UNA, chicken is the main protein consumed in the U.S., but unlike in Mexico, most of the chicken is sold by producers in cuts, and the cuts are mainly sold frozen and with value-added (more than 85%). This is due to a large increase in demand for the three main components of chicken: the breast, wing, and leg quarters.

The U.S. is the world's largest producer of chicken. Its annual production is estimated at 19.3 million tons or 42.6 billion pounds in 2018. This represents a 2.2% increase over the 18.9 million tons produced in 2017, with per capita consumption among the highest worldwide, per annum, estimated at 41.8 kilograms (around 92.1 pounds).

The U.S. chicken industry is substantially consolidated and vertically integrated. Most producers of chicken use state-of-the-art technology in their processes. It is estimated that the main three chicken producers account for 48.1% of the total chicken production in the U.S.

Another characteristic of the chicken industry in the U.S. is the use of contract growers, with more than 85% of chicken produced by contract growers. Such production consists of providing the growers with chickens, balanced feed, vaccines, medicines and training required for the growing of chickens. The grower supplies its facilities and labor required in order to bring the chickens to slaughter-ready weight. The contract grower is then paid based on the productivity and efficiency of its flock.

Brazil and the U.S. are the main exporters of chickens worldwide, and their main destinations are Mexico, China, Russia and the Middle East, among other countries. We estimate that our market share is around 1.9% in the U.S.

Overview of the Egg Industry in Mexico

According to the UNA, Mexico has the largest per capita consumption of eggs (or “table eggs”) in the world.

There is an estimated per capita consumption of around 22.9 kilograms for 2018, a 1.0% increase when compared to 22.6 kilograms in 2017.

Mexico’s 2018 annual egg production is estimated at 2,802.7 million tons, an increase of 3.1% as compared to 2,718.5 million tons produced in 2017.

When compared to other protein sources, eggs are among the cheapest sources of protein in Mexico. The egg industry is more fragmented than the chicken industry.

Table eggs in Mexico are classified in three main categories: bulk, packaged and processed.

- **Bulk** is distributed in large 360 egg cases.

- **Packaged** is branded packages of mainly 12, 18, 24 or more eggs.

- **Processed** is liquid or powdery eggs used mainly by the bakery industry.

Bachoco participates in the bulk and packaged categories of eggs but does not participate in the processed market.

We estimate that we are the second largest producer of table eggs in Mexico. In each of 2018 and 2017, we produced approximately 5.1% of the total eggs produced in Mexico measured in tons. We sell both brown and white eggs. We estimate that we are the largest producer of brown eggs in Mexico, and the largest marketer of packaged eggs with brand identification.

In 2018, 2017 and 2016, the volume sold in the table eggs category in the Mexican industry and by the Company was:

#### SALES AND VOLUME OF EGG BY CATEGORY

In 2018	Industry / volume <sup>(1)</sup>	Bachoco /volume	Bachoco /sales
Bulk	n/a	27	27
Packaged	n/a	73	73
Processed	n/a	0	0

In 2017	Industry / volume <sup>(2)</sup>	Bachoco /volume	Bachoco /sales
Bulk	79	29	25
Packaged	14	71	75
Processed	7	0	0

In 2016	Industry / volume <sup>(2)</sup>	Bachoco /volume	Bachoco /sales
Bulk	80	34	28
Packaged	14	66	72
Processed	6	0	0

(1) Industry information for 2018 is not available as of the date of this report.

(2) Source: UNA.

#### Overview of the Balanced Feed Market in Mexico

According to CONAFAB, Mexico is among the five biggest producers of balanced feed worldwide.

According to CONAFAB, it is estimated that 34,637 thousand tons of balanced feed were produced in Mexico in 2018, a 4.2% increase from 33,240 thousand tons of balanced feed produced in 2017.

Producers of balanced feed are classified as either commercial or integrated; commercial manufacturers produce for the market while integrated manufacturers mostly produce for themselves and occasionally for other producers.

Bachoco participates in both channels, integrated and commercial, as it produces balanced feed used for internal consumption as well as balanced feed it ultimately sells to third parties.

In 2018, CONAFAB estimated that the production mix between commercial and integrated was about 38.1% and 61.9%, respectively. This mix has not changed much over the past several years.

The following table sets forth, for each of the periods indicated, our net volume sold of balanced feed:

**BALANCED FEED VOLUME SOLD**

Thousands of tons	Production	Bachoco's Production	Estimated Market Share	
2018 <sup>(1)</sup>	13,203	429	3.2	%
2017 <sup>(1)</sup>	12,616	451	3.6	%
2016 <sup>(2)</sup>	12,438	429	3.4	%

(1) CONAFAB estimates

(2) According to CONAFAB, balanced feed produced by commercial producers in Mexico.

*Seasonality Effects*

The poultry industry worldwide is very susceptible to price changes in its main raw materials, such as corn, soybean meal and sorghum. As a result, the industry is characterized by cyclical periods of higher profitability leading to overproduction followed by periods of lower prices and lower profitability.

Our sales are moderately seasonal in Mexico. Generally, we experience the highest levels of sales in the second and fourth quarters due to higher chicken consumption during the holiday seasons.

As for our sales in the U.S., there is slightly less seasonality due to the mix of products offered in the market, but breast meat prices are typically higher in the second and third quarters and wings are more in demand in the first and fourth quarters.

*Pricing for chicken and eggs products*

Chicken and eggs are considered a commodity item. Changes to the supply or demand and changes in raw material prices can directly impact sale prices, and, as a result, affect the profitability of main producers. Another factor that impacts chicken pricing, mainly in U.S., is the international demand.

***Main Raw Materials and Sources of Supply***

As a vertically integrated company our processes start in our main product lines with production of balanced feed, as well as with the buying of grandparent breeder flocks.

Our production of chicken processes start with the purchasing of one-day birds called “grandparent” birds. These birds are raised to maturity in our farms where fertile eggs are produced to continue through our production processes. Grandparent birds are bought mainly in the U.S. and also in some other countries from genetic bird firms.

The largest single component of our cost of sales is the cost of balanced feed raw materials, mainly grain (corn and sorghum), as well as soybean meal, used to prepare balanced feed. We operate our own feed mills to produce balanced feed for both our individual business consumption as well as to sell to third parties.

The prices of these ingredients are subject to significant volatility resulting from weather, the size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. The Company engages in hedging of its feed costs in order to assure a more stable cost of grains.

In Mexico, domestic crops are limited, therefore a large percentage of our raw materials are imported from the U.S. In 2018, in terms of volume, we bought approximately 16.3% of our total grain from the domestic market and the remaining 83.7% from the U.S.

***Marketing Channels Used by the Company***

**Marketing and Distribution of Chicken Products in Mexico**

We have developed an extensive distribution system to participate in all the existing distribution channels of chicken and eggs products. We consider our distribution system one of the Company's strengths, where we have developed extensive expertise and knowledge of the business.

We participate and operate in all the following marketing channels:

**Live Chicken.** Unlike most other countries, Mexico has a large marketing channel of live chicken, which mainly operates in the central and southern regions of Mexico.

**Wholesalers.** Large percentages of our chicken sales operate via wholesalers. The main products marketed in this channel are live and public market chicken as well as rotisserie. We do not have exclusive supply agreements with our customers.

**Institutional.** We sell a large amount of product to institutional customers. We mainly sell chicken cuts and rotisserie chicken in the institutional channel. Success in supplying the institutional channel depends on consistency and good service, and only larger producers with more modern processing facilities and distribution capacity can compete in this market.

**Supermarket.** We sell cuts and value-added products as well as supermarket chicken types through supermarket channels or convenience stores. In this channel we emphasize our brand image as well as our superior service, reinforced by frequent delivery to ensure freshness, to build consumer's loyalty.

**Retail.** A wide range of products are sold under this marketing channel that goes from the live chicken to value-added or public market and supermarket chicken type. The Company supplies several points of sale that directly sell these products to the customers.

We use our own fleet to transport the majority of rotisserie chickens, supermarket broilers and other chicken products to our customers in Mexico. We try to cooperate with existing distribution channels and do not compete with wholesale distributors, except in areas where we supply our own distribution capacity where needed for market penetration.

We distribute products from our processing plants to our cold-storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. From our cold-storage facilities, we service wholesalers and retailers and transport certain products directly to supermarkets and food-service operations. Our distribution infrastructure includes more than 66 cold-storage warehouses and facilities and a large fleet of vehicles.

*Marketing and Distribution of Chicken Products in the U.S.*

Our U.S. operations, which lie across the River Valley area in Arkansas and Oklahoma, Alabama and Georgia, produce mainly chicken products. Those plants mainly supply grocery retailers, food service distributors, national accounts and commodity customers throughout the U.S. The U.S. complex also services the foreign market and exports to several countries including various Asian countries and Mexico. Our distribution line through our plants is handled mainly through third parties.

*Marketing and Distribution of Eggs Products in Mexico*

Eggs are mostly sold packaged with brand identification. We sell white and brown eggs. Our branded carton of brown eggs is a premium product in the Mexican market because consumers perceive them to be of higher quality.

Our marketing strategy in the eggs business is to gradually move from bulk to packaged white eggs. Packaged eggs are less vulnerable to price fluctuation and create brand loyalty.

We have designed our egg distribution system to transport eggs from our laying farms to customers in all sales regions.

**Wholesalers.** We sell eggs in bulk; these wholesalers operate mainly in central Mexico. This product is sold to consumers mainly by kilogram and not by unit.



-**Institutional**. We sell eggs in bulk in this institutional marketing channel.

-**Supermarket**. We sell eggs packaged with brand identification and a large number of presentation patterns in packages of 12, 18, 24 or more eggs.

-**Retail**. We distribute eggs directly to customers in packages with brand identification.

*Marketing and Distribution of Balanced Feed in Mexico*

Our production of balanced feed to third parties accounts for a wide range of products. We produce balanced feed products mainly in the poultry industry, but we also produce in other markets such as pet food, cattle, swine and fish, among other species.

We sell balanced feed products mainly to small livestock producers and through a network of small distributors located mainly in central and southern Mexico. Currently, we have six feed plants dedicated to producing balanced feed to third parties.

***Patents, Licenses and Other Contracts***

At the end of 2018, we owned a total of 768 industrial and intellectual intangible assets as described below:

a) 621 registered brands, from them, 428 are brands registered in Mexico and 92 outside of Mexico, we including, 101 commercial media communications brands.

b) 7 patents in Mexico.

c) 140 copyrights, from them 52 are software copyrights and 88 billboards copyrights.

The Company's operations are not dependent on the existence of patents or licenses or contracts signed with customers or suppliers.

We own the rights to a wide range of brands that we use to market our products. These rights are renewed every ten years.

***Material Effects of Government Regulations on the Company's Business***

Every region where Bachoco operates is subject to extensive federal, state and foreign laws and regulations, which can have a material effect on the Company. Such laws and regulations include among others, the following:

***Import and Export Regulations***

Effective January 1, 2008, there is a free chicken market between Mexico and the U.S. This allows U.S. producers to export any amount of chicken (mainly leg quarters) free of tariffs to Mexico.

The U.S. chicken exports to Mexico have substantially increased since applicable restrictions on such imports have recently phased out. However, this development does impact the Mexican market for chicken because neither we, nor any other Mexican chicken producer, are yet able to export similar products to the U.S. Our production complex in the

U.S. exports chicken products to several countries such as China and Mexico, among others, and therefore it is subject to various laws and regulations that apply in each of these countries.

*Antitrust Regulations*

In Mexico, the *Ley Federal de Competencia Económica* (“Mexican Economic Competition Law” or “LFCE”), regulates monopolies and monopolistic practices.

Under this law, Mexican producers, including Bachoco are required to notify the *Comisión Federal de Competencia Económica* (“Competition Federal Commission” or “COFECE”) of all proposed transactions exceeding specified threshold amounts as set forth in the Mexican Economic Competition Law. The COFECE can impose conditions on, and prevent or unwind, any such transactions by Mexican companies. We have complied with all requirements under this law. In December 2009, Mexico’s COFECE published a notice announcing an investigation of the Mexican poultry sector regarding possible monopolistic business practices. No specific companies were cited as conducting business in this manner. We, along with other Mexican producers and distributors, were required to provide information to the commission during the following years. As a result of this investigation, COFECE imposed several fines on us for supposedly having certain practices where the price of chicken was manipulated.

In all cases, the Company disagreed with the COFECE’s resolution and appealed all of the resolutions according to the provisions of Mexican law in order to assert our rights as a company that contributes to the development of the country and to a free market.

As of the date of this Annual Report, some of these judgments were concluded in favor of the Company, accordingly the provision recorded for this purpose was cancelled.

Anti-dumping Regulations

Since 2003, chicken (excluding leg quarters for which the Mexican government had imposed certain temporary restrictions), eggs and swine import quotas were eliminated by virtue of NAFTA and its successor, once ratified, the USMCA. Poultry producers in the United States have developed extremely low-cost production methods and have been successful in exporting primarily frozen and value-added poultry to other countries, including Mexico, especially in periods of overcapacity in the United States.

On January 1, 2008, the restrictions previously imposed for leg quarters were phased out. As a result, there are no restrictions on exporting these products to Mexico at this time.

In February 2011, the *Secretaría de Economía* (or “Mexican Ministry of Economy”) initiated an antidumping investigation focusing exclusively on imports of leg quarters to Mexico from the U.S. This investigation was requested by Bachoco and by two other Mexican poultry companies.

As a result of this investigation, in January 2012, the Ministry of Economy issued a preliminary ruling on anti-dumping procedures and confirmed dumping conditions on chicken leg quarters imported from the U.S., including margins ranging from 62.90% to 129.77%, stating that such practices damaged the Mexican poultry industry.

The Mexican Ministry of Economy had the authority to impose anti-dumping duties, but did not proceed as the interested parties expressed the desire to reach an agreement. The companies involved provided new arguments.

Consequently, on August 7, 2012, after examining all final arguments, the authorities confirmed the existence of dumping conditions that caused harm to the domestic poultry industry. The Mexican Ministry of Economy imposed anti-dumping duties on imports of chicken leg quarters from the U.S., but stated that such penalties would not be applied immediately, as the poultry industry was being affected by the presence of avian flu type H7N3 in the State of Jalisco. It is worth noting that the Company’s facilities were not affected by this outbreak of influenza.

As of the date of this report, we do not have any further information from the Mexican Ministry of Economy regarding the application of such duties to the chicken industry. We do not believe we will be subject to any anti-dumping fines and thus have not recorded any provisions in our consolidated financial information.

Environmental and Sanitary Regulation

The chicken industry is subject to government regulation in the health and environmental safety areas, including provisions relating to water and air pollution and noise control. Below is a description of the principal laws and administrative authorities in these areas in Mexico and the U.S.:

**Mexico.** The *Servicio Nacional de Sanidad Inocuidad y Calidad Alimentaria* (Mexican Sanitary Authority or “SENASICA”), the *Ley General de Equilibrio Ecológico y Protección Ambiental* (General Law of Ecological Balance and Environmental Protection) and the *Secretaría del Medio Ambiente y Recursos Naturales* (Ministry of Environment and Natural Resources or “SEMARNAT”).

**The United States.** The USDA, the Centers for Disease Control, the Environmental Protection Agency (or “EPA”), the U.S. Department of Homeland Security (or “DHS”) and the U.S. Department of Labor (or “DOL”).

All of these laws or regulations can bring administrative and criminal proceedings against companies that violate environmental and safety laws and regulations, and after certain administrative procedures, such violations can result in the closure of non-complying facilities.

The Company provides information to these authorities on a regular basis or whenever required to assure the Company’s compliance thereof. Our Mexican and U.S. subsidiaries are also in compliance with all current regulations and are constantly monitored to ensure compliance in case of any changes in the regulatory environment.

The *Comisión Nacional del Agua* (CONAGUA, for its Spanish acronym) imposed fines on the Company for infractions the Company supposedly committed when extracting water from wells and other sources for livestock use. The Company is appealing the imposition of these fines and has registered a provision for the amount that it will probably pay.

### C. Organizational Structure

The Company is a holding company with no operations other than holding the stock of its subsidiaries. Our main operating subsidiaries are BSACV and Bachoco USA (the holding company for OK Foods), which own our main operating assets.

In 2018, our subsidiary BSACV accounted for 58.9% of consolidated total assets and 62.6% of total consolidated sales and our subsidiary Bachoco USA, accounted for 18.2% of consolidated total assets and 28.9% of total consolidated sales.

All of our subsidiaries are directly owned by us in the percentages listed below. The following table shows our main subsidiaries as of December 31, 2018, 2017 and 2016:

### PERCENTAGE EQUITY INTEREST

Subsidiary	Country	2018	2017	2016
Aviser, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	Mexico	99.99	99.99	99.99
Campi Alimentos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	Mexico	99.99	99.99	99.99
PEC LAB, S.A. de C.V., and subsidiary	Mexico	64.00	64.00	64.00
Secba, S.A. de C.V.	Mexico	99.99	99.99	99.99
Sepetec, S. A. de C.V.	Mexico	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	Mexico	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco USA, LLC. and subsidiary	U.S.	100.00	100.00	100.00
Wii kit RE LTD.	Bermuda	100.00	100.00	100.00
Proveedora La Perla S.A. de C.V.	Mexico	100.00	100.00	

Bachoco USA is a subsidiary incorporated on March 2, 2012 to serve as the holding company for O.K. Industries, Inc., the American poultry company we acquired in November 2011.

At the end of 2016 we set up Wii kit RE LTD, a captive reinsurance company to complement our risk management strategy, as a subsidiary of the Company, in which we own 100% of the shareholding. Wii kit RE LTD., is a Class I reinsurance company that provides insurance coverage to its affiliates.

In July 2017, we acquired La Perla, a Mexican corporation, as a fully owned subsidiary of the Company. This company is dedicated to the production and sale of pet food.

For more detail regarding the Company's subsidiaries, see Note 5 of our Audited Consolidated Financial Statements included herein.

#### **D. Property, Plant and Equipment**

We have more than a thousand production facilities in Mexico and in the U.S. (most of which are farms) and 67 distribution centers that are located throughout Mexico, to ensure freshness and minimize transportation time and costs.

We own most of our facilities, we own around 75% of our farms and lease a limited number of other farms and sales centers. We also employ a network of contract growers.

The following table indicates Bachoco's production facilities and the number of each type of facility both in Mexico and the U.S., as of December 31, 2018:

## BACHOCO'S FACILITIES

Facilities	Number of Facilities:	
	In Mexico	In The U.S.
Chicken breeding farms	128	199
Broiler grow-out farms	516	306
Broiler processing plants	8	2
Hatchery	21	2
Egg production farms	137	0
Swine breeding farms	1	0
Swine grow-out farms	19	0
Feed mills	20	2
Further process plants	4	5

### *Bachoco's facilities in Mexico*

In the past, our facilities in Mexico were grouped in several complexes with main offices in Mérida, Coatzacoalcos, Tecamachalco, Celaya, Lagos de Moreno, Monterrey, Gómez Palacios, Culiacán and Hermosillo. In 2014, we implemented a new structure whereby our facilities are now grouped according to "business units" where each business unit is responsible not only for the production process but also customer service in an assigned region.

Our eight processing plants process around 11.8 million chickens per week and our laying farms produce around 12.0 thousand tons of commercial eggs each month.

Six of the twenty feed mill plants in Mexico, are dedicated to the production of balanced feed for sales to third parties and the remaining fourteen are dedicated mainly to internal consumption. We produce around 36 thousand tons of balanced feed per month for sale to third parties.

We own other facilities, including two poultry manure-processing plants. We also own a laboratory that produces vaccines for the poultry industry, which we mainly use for internal purposes, but we also sell some vaccines to third parties.



*Expansion, Construction or Issues Related to Our Facilities in Mexico*

In 2018, we continued with our organic growth plans and productivity projects to improve our efficiency and to alleviate bottlenecks, thereby increasing production, in some of our production centers. For instance, we increased our grow-out capacity, we improved our productivity and increase our hatchery capacity, and we made several improvements in our processing plants. We also replaced part of our fleet in all of our business units.

In July 2017, we acquired La Perla, a pet food company with the capacity to produce over 65,000 tons a year of dry pet food and that has a facility for producing pet food treats.

In 2016, we continued several projects to improve our efficiency and alleviate bottlenecks, thereby increasing production, in some of our production centers. For instance, we increased: our breeding and processing capacity in the Yucatan peninsula region, our table egg production capacity in the southwest region and our hatchery capacity in the northern region of Mexico.

During 2015, we continued several projects to alleviate bottlenecks, thereby increasing production, in some of our production centers. For example, we finished our live chicken production capacity in the State of Chiapas and in other southern states and increased our processing capacity in our processing plants located in central Mexico.

***Bachoco's facilities in the U.S.***

We have facilities across the River Valley area in Arkansas, Oklahoma, Alabama and in Georgia. We process around 3.0 million chickens per week in those facilities. Our offices are in Fort Smith, Arkansas. Our slaughter and deboning plants and feed mills are located in Fort Smith, Arkansas. and in Heavener, Oklahoma. We have further-processing plants to produce value-added chicken products in Fort Smith, Oklahoma City, Muldrow, Oklahoma and in Alabama; hatcheries in Heavener and Stigler, Oklahoma; broiler research farms, in Greenwood, Arkansas and Hartford, Arkansas; and our cooler storage and distribution center in Muldrow, Oklahoma.

***Expansion, Construction or Issues Related with Our Facilities in the U.S.***

In July 2013, the Company reached an agreement to acquire the Arkansas breeding assets of Morris Hatchery Inc., a U.S. company. These assets comprise mainly of equipment and bird inventory (laying hens that produce hatching eggs), with a capacity of approximately 350 thousand laying hens.

In July 2015, the Company reached an agreement to acquire the Georgia breeding assets of Morris Hatchery Inc. These assets comprise mainly of equipment and bird inventory (laying hens that produce hatching eggs), with a capacity of approximately - one million laying hens.

In December 2015, the Company reached an agreement to acquire the Oklahoma City Fully Cooked facility from American Foods Group, a U.S. Company. This acquisition comprises all the American Foods Group's chicken assets located in Oklahoma City, with a capacity to produce over 700,000 pounds per week of fully cooked chicken products. The Company closed the transaction in February 2016 through its subsidiary, OK Foods.

In July 2017, we acquired AQF a company that produces and sells value-added further processed products.

See Note 4 of our Audited Consolidated Financial Statements for more detail.

The Company plans to continue with several projects, primarily in Mexico, gradually increasing our chicken and egg production in the next few years.

**ITEM 4.A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

**A. Operating Results**

In January 2009, the CNBV published certain amendments to the Rules for Public Companies and other participants in the Mexican Securities Market that require public companies to report financial information in accordance with IFRS as issued by the IASB, effective as of January 1, 2012.

Following these amendments, for the year ended December 31, 2012, we adopted IFRS, with January 1, 2011 as our transition date. Thus, we timely issue our periodic reports under IFRS, meeting all of the CNBV requirements.

The rules and regulations of the SEC, do not require foreign private issuers that prepare their financial statements on the basis of IFRS (as issued by the IASB) to reconcile such financial statements to U.S. GAAP. As such, while the Company has in the past reconciled its consolidated financial statements prepared in accordance with MFRS to U.S. GAAP, those reconciliations are no longer presented in Bachoco's filings with the SEC.

### *Year 2018 Overview*

In 2018, we posted improvements in our total sales and volume sold, mainly in our poultry segment, when compared to the previous year.

These results were driven by external and internal conditions. Externally, we benefitted from (i) a stable cost of our main raw materials in U.S. dollar terms, and (ii) a strong level of demand in Mexico during the first six months. However, we were negatively impacted by (i) oversupply conditions on the second half of the year, in both Mexico and the U.S. (ii) low prices for animal protein in the U.S. and (iii) volatility in exchange rate of the Mexican Peso versus the U.S. dollar.

Internally, we increased the volume sold in our poultry segment, primarily due to (i) the implementation of our organic growth strategies, (ii) our ability to capture efficiencies to continue as a low cost producer company and (iii) the implementation of several projects to be closer to our customers and better understand and attend to their needs.

### *Macroeconomic Conditions in Mexico*

In 2018 Mexican macroeconomic conditions continued to display volatility. The annual inflation rate was 4.83%, annual GDP was 2.0%, the Mexican peso depreciating 2.0% on the average against the dollar and remained unchanged at year-end.

According to UNA estimates, in 2018, the volume of chicken in Mexico grew by approximately 2.5%, which means that the Mexican chicken industry continued growing at normalized levels. However, the production of eggs increased by approximately 3.0%. We believe this increase in supply was due to the recovery of the production results of part of the industry during 2018.

### *Operating Performance*

All figures discussed below are information for 2018, with comparative figures of 2017 and 2016 prepared in accordance with IFRS and are presented in millions of pesos unless otherwise indicated. This information should be read in conjunction with our Audited Consolidated Financial Statements.

The following table sets forth selected components of our results of operations for each of the periods indicated:

### STATEMENT OF PROFIT OR LOSS DATA

In millions of pesos, for the years ended December 31,	2018	2017	2016
	\$	\$	\$
Net revenues	61,052.1	58,050.0	52,020.3
Cost of sales	51,422.4	47,503.0	42,635.1
Gross profit	9,629.7	10,547.1	9,385.2
General, selling and administrative expenses	6,024.4	5,423.4	4,847.9
Other income (expenses), net	102.7	167.6	260.2
Operating income	3,708.0	5,291.3	4,797.6
Net finance income	808.6	747.6	797.0
Income tax	1,155.0	1,084.4	1,643.4
Profit attributable to controlling interest	3,350.0	4,948.2	3,946.6
Profit attributable to non-controlling interest	11.6	6.2	4.5
Profit for the year	3,361.6	4,954.4	3,951.2
Basic and diluted earnings per share <sup>(1)</sup>	5.58	8.25	6.58
Basic and diluted earnings per ADR <sup>(2)</sup>	67.00	98.97	78.90
Dividends per share <sup>(3)</sup>	1.420	1.300	1.300
Weighted average shares outstanding <sup>(4)</sup>	599,981	599,998	599,980

- (1) Calculated based on the weighted average number of basic and diluted shares. No potentially dilutive shares exist in any of the years presented, for which reason, basic and diluted earnings per share are the same.
- (2) Each ADR represents twelve shares.
- (3) Dividends per share have been computed by dividing the total amount of dividends paid by the weighted average shares outstanding.
- (4) In thousands of shares.

### ***Operating Results 2018 vs 2017***

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, in each period:

#### **NET REVENUES BY OPERATING SEGMENTS**

In millions of pesos	2018		2017		Change	
	\$	% sales	\$	% sales	\$	% sales
Net Revenues	61,052.1	100.0	58,050.0	100.0	3,002.1	5.2
Poultry	55,308.1	90.6	52,479.4	90.4	2,828.7	5.4
Others	5,744.0	9.4	5,570.6	9.6	173.4	3.1

#### **NET REVENUES BY GEOGRAPHY**

In millions of pesos	2018		2017		Change	
	\$	% sales	\$	% sales	\$	% sales
Net Revenues	61,052.1	100.0	58,050.0	100.0	3,002.1	5.2
In Mexico	43,510.9	71.3	41,583.9	71.6	1,927.0	4.6
In the U.S.	17,541.2	28.7	16,466.1	28.4	1,075.0	6.5

#### ***Net Revenues***

In 2018, net sales totaled \$61,052.1 million, \$3,002.1 million or 5.2% more than the \$58,050.0 million reported in the same period in 2017. The sales increase is mainly attributed to higher prices in both our poultry and others segments.

In 2018, sales of our U.S. operations represented 28.7% of our total sales, compared with 28.4% in 2017.

The Company's sales of poultry products increased 5.4% in 2018, mainly as a result of a 3.7% increase in poultry prices and a 1.7% increase in volume sold. The increase in prices was both in Mexico and the U.S. The increase in prices in the U.S. was due in part to a higher mix in value added products as a result of the full year integration of AQF. However, we were unable to fully translate our increased costs into a higher price because of downward pressure on price from oversupply conditions in the latter half of the year.

Sales of the "others" segment increased 3.1% due mainly to an increase of 8.2% in prices, which was partially offset by a decrease of 5.1% of volume sold.

The following table sets forth a breakdown of our cost of sales for each of the periods indicated:

#### **COST OF SALES**

	2018		2017		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	51,422.4	84.2	47,503.0	81.8	3,919.4	8.3
Poultry	46,562.2	76.3	42,767.2	73.7	3,795.0	8.9
Others	4,860.2	8.0	4,735.8	8.2	124.4	2.6

Our total cost of sales increased \$3,919.4 million or 8.3% in 2018, when compared to the previous year.

This increase was mainly attributable to a higher cost of raw materials in Mexican peso terms, higher volume sold, and a mix effect, due to higher percentage of further processed products in our US operation, which have a higher production cost.

The largest single component of our cost of sales is the cost related to our balanced feed raw materials, which has accounted for approximately 65% of our total cost of sales in the last three years. The main components of our balanced feed raw materials are corn, sorghum and soybean meal and all of the components of raw materials are subject to high volatility caused by supply, weather conditions and exchange rates, among others.

Besides balanced feed costs, the cost of sales includes other factors such as salaries and wages and energy costs. These two factors represented approximately 9% and 5% of our total cost of sales, respectively, in the last three years.

There are many other factors with much smaller contributions to the overall cost of sales. All of these secondary factors individually registered immaterial changes from 2018 to 2017.

#### **GENERAL, SELLING AND ADMINISTRATIVE EXPENSES**

	2018		2017		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	6,024.4	9.9	5,423.4	9.3	601.0	11.1

In 2018, general, selling and administrative expenses totaled \$6,024.4 million, compared to the \$5,423.4 million reported in 2017, representing an increase of \$601.0 million or 11.1%. Approximately 2% of this increase was attributable to more volume sold and the remainder is primarily due to higher unit expenses. In particular, we had (i) additional expenses as part of the implementation of projects related to improve our operating efficiency (ii) in Mexico, expenses increased due to price increases in fuel and energy, mainly in the second half of 2018; and (iii) a full year integration of our AQF and La Perla acquisitions.

In 2018 and 2017, our general, selling and administrative expenses represented 9.9% and 9.3% of total sales, respectively.



The main components that comprised our general, selling and administrative expenses in the past three years are the following: freight and transportation equipment expenses (about 37%), labor (about 35%) and publicity (about 4%), with no significant variation in these percentages.

**OTHER INCOME (EXPENSE) NET**