

GRUPO CASA SABA SA DE CV

Form 6-K

July 28, 2010

Quarterly Earnings Report 2Q10

July 28, 2010

Operating Income and Net Income Increased by 9.05% and 12.93%, Respectively

#### Financial Highlights:

(All figures are expressed in millions of Mexican pesos of purchasing power as of June 2010. Comparisons are made with the same period of 2009, unless otherwise stated. Figures may vary due to rounding practices).

- Net sales for the second quarter of 2010 grew 0.11% to reach \$7,587.32 million
- Gross income for the quarter rose 0.74% compared to the same period of 2009
- The gross margin for the quarter was 11.05%
- Quarterly operating expenses declined 2.77% versus the second quarter of the previous year
- Operating income increased 9.05% to the same period of 2009
- The quarterly operating margin was 3.55%
- Operating income plus depreciation and amortization rose 5.26% versus 2Q09 to reach \$284.08 million
- GCS's net profit for the quarter was \$166.03 million, an increase of 12.93% compared to the second quarter of 2009
- Cash and cash equivalents at the end of the second quarter of 2010 was \$470.58 million

Mexico City, Mexico, July 28, 2010. Grupo Casa Saba ("Saba", "GCS", "the Company" or "the Group"), one of the leading Mexican distributors of pharmaceutical products, health and beauty aids, personal care and consumer goods, general merchandise, publications and other products announces its consolidated financial and operating results for the second quarter of 2010.

## QUARTERLY EARNINGS

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### NET SALES

During the second quarter of 2010, GCS's sales reached \$7,587.32 million, a slight increase of 0.11%.

## SALES BY DIVISION

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### PRIVATE PHARMA

Quarterly sales in our main division, Private Pharma, decreased 0.87% versus 2Q09. This decrease was primarily the result of the higher level of sales reported by this division during the second quarter of 2009 due to the outbreak of the AH1N1 virus, which affected various states within the country during the months of April and May of that year and which had a positive effect on our sales.

As a result, Private Pharma represented 84.36% of the Group's total sales, 84 basis points lower than the participation that it had in 2Q09.

### GOVERNMENT PHARMA

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Sales in our Government Pharma division declined 6.72% compared to the second quarter of 2009, primarily as a result of lower sales to PEMEX and ISSEMYM. It is worth mentioning that, in the case of PEMEX, the decrease was related to a reduction in subrogation contracts while that of ISSEMYM was related to a decline in demand on behalf of this institution.

As a result, this division went from representing 3.81% of total sales in 2Q09 to 3.55% during the same period of 2010.

### **HEALTH, BEAUTY, CONSUMER GOODS, GENERAL MERCHANDISE AND OTHER**

Sales in our Health, Beauty, Consumer Goods, General Merchandise and Other division rose 2.93% compared to the second quarter of 2009. This increase was the result of an increase in offers and promotions that stimulated the demand for these products in the marketplace.

This division represented 8.86% of GCS's total sales in 2Q10, 24 b.p. higher than in 2Q09, when it accounted for 8.62%.

### **PUBLICATIONS**

During the quarter sales from Citem, our Publication distribution division, increased 35.97% compared to 2Q09. This growth was due to an increase in sales of specialty titles related to the World Cup that took place in South Africa as well as the recuperation of various publishers.

The significant growth reported by this division enabled it to increase its participation as a percentage of the Group's total sales, from 2.38% in 2Q09 to 3.23% in the second quarter of 2010.

Division	% of Sales
Private Pharma	84.36%
Government Pharma	3.55%
Health, Beauty, Consumer Goods, General Merchandise and Other	8.86%
Publications	3.23%
TOTAL	100.00%

### **GROSS INCOME**

During the second quarter of the year, Grupo Casa Saba's gross income grew 0.74% versus the same period of the previous year to reach \$838.75 million pesos. This increase was primarily due to a reduction in the cost of sales of the merchandise sold as a percentage of net sales. As such, the company's gross margin was 11.05%, 6 basis points higher than the 10.99% margin reported in 2Q09.

### **OPERATING EXPENSES**

GCS maintained strict control over its costs and expenses during the quarter. As a result, the Group's operating expenses reached \$569.28 million in 2Q10, a decline of 2.77% compared to the second quarter of 2009.

Operating expenses as a percentage of total sales decreased 23 b.p., from 7.73% in 2Q09 to 7.50% during the second quarter of 2010, due to the reduction in operating expenses and the increase in sales.

## **OPERATING INCOME**

Quarterly operating income was \$269.47 million, 9.05% higher than the \$247.12 million reported in 2Q09. The growth was the result of higher sales and lower operating costs.

Consequently, the operating margin for the period was 3.55%, 29 basis points higher than the 3.26% margin registered during the second quarter of 2009.

## **OPERATING INCOME PLUS DEPRECIATION AND AMORTIZATION**

Operating income plus depreciation and amortization for 2Q10 was \$284.08 million pesos, an increase of 5.26% compared to 2Q09. Depreciation and amortization for the period was \$14.61 million, 35.81% lower than it was during the second quarter of 2009.

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at the end of the second quarter of 2010 was \$470.58 million, an increase of 136.29% compared to the same period of 2009.

## **COMPREHENSIVE COST OF FINANCING**

During the quarter, GCS's comprehensive cost of financing (CCF) reached \$79.46 million, 35.53% higher than the CCF reported during 2Q09. This was primarily due to an increase in the amount of interest paid.

## **OTHER EXPENSES (INCOME)**

During the second quarter of 2010, the Company reported an income of \$13.87 million in other expenses (income), 513.28% higher than the income reported during the same period of 2009. It is worth mentioning that the expenses (income) from this line item were derived from activities that are distinct from the company's everyday business operations.

## **TAX PROVISIONS**

Tax provisions were \$37.84 million during the second quarter of 2010, 13.44% less than the \$43.72 million reported during 2Q09. All of the provisions this quarter were related entirely to income tax payments.

## **NET INCOME**

GCS's net income for the second quarter was \$166.03 million pesos, an increase of 12.93% compared to the same quarter of 2009. This was primarily due to the decrease in operating expenses as well as the decline in the Company's tax provisions during the period.

Consequently, the net margin for the period was 2.19%, 25 basis points higher than the 1.94% net margin registered during the second quarter of the previous year.

**WORKING CAPITAL**

During the second quarter of 2010, our accounts receivable days increased by 10.1 days from 2Q09 to reach 77.9 days. In addition, our accounts payable days declined 1.70 days versus 2Q09, to reach 50.3 days. Finally, our inventory days were 61.0 days, 6.0 more days than we had during the same period of 2009.

The 265.4 million shares issued by Grupo Casa Saba are listed on the Mexican Stock Exchange and its ADRs on the New York Stock Exchange, both under the symbol "SAB". One ADR equals 10 ordinary shares.

Grupo Casa Saba is one of the leading distributors of pharmaceutical products, beauty, personal care and consumer goods, general merchandise, publications and other goods in Mexico. With more than 115 years of experience, the Company distributes to the majority of pharmacies, chains, self-service and convenience stores, as well as other specialized national chains.

As a precautionary note to investors, except for the historic information contained herein, certain topics discussed in this document constitute forward-looking statements. Such topics imply risks and uncertainties, including the economic conditions in Mexico and other countries in which Grupo Casa Saba operates, as well as variations in the value of the Mexican peso as compared with the US dollar.

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**GRUPO CASA SABA S.A.B. DE C.V. AND SUBSIDIARIES CONSOLIDATED**

**BALANCE SHEET** In thousands of Mexican Pesos

**I T E M June 10 June 09 Variation**

**TOTAL ASSETS**

16,427,307

13,772,511

2,654,797

<b>CURRENT ASSETS</b>	13,477,064	10,793,644	2,683,420	CASH AND
CASH EQUIVALENTS	470,583	199,154	271,429	ACCOUNTS
RECEIVABLE (NET)	6,568,693	5,710,606	858,087	OTHER
ACCOUNTS RECEIVABLE (NET)		1,761,802	636,270	1,125,532
INVENTORIES	4,570,687	4,121,181	449,506	OTHER CURRENT
ASSETS	105,299	126,432	(21,134)	<b>NET PROPERTY, PLANT</b>
<b>AND EQUIPMENT</b>	1,341,994	1,357,001	(15,006)	PROPERTY
1,360,808	1,355,491	5,318		MACHINERY AND EQUIPMENT
455,584	494,165	(38,581)		OTHER EQUIPMENT

682,145	662,793	19,352	ACCUMULATED DEPRECIATION	
1,156,543	1,155,448	1,094	<b>DEFERRED ASSETS (NET)</b>	1,342,006
	1,321,157	20,850	<b>OTHER ASSETS</b>	300,709
	(34,467)			

<b>TOTAL LIABILITIES</b>	9,257,431	6,708,576	2,548,855	
<b>CURRENT LIABILITIES</b>	7,357,058	5,129,581	2,227,477	ACCOUNTS
PAYABLE	4,028,494	3,911,710	116,784	BANK DEBT
2,186,884	1,047,614	1,139,270		

## OTHER CURRENT LIABILITIES

	1,141,680	170,257	971,423	<b>LONG TERM LIABILITIES</b>
1,310,707	1,102,472	208,235	BANK DEBT	1,310,707
1,102,472	208,235		<b>OTHER LIABILITIES</b>	589,667
	113,144			476,522

<b>SHAREHOLDER'S EQUITY</b>	7,169,876	7,063,935	105,941
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<b>PAID-IN CAPITAL</b>	1,993,875	1,993,875	-	CAPITAL STOCK
167,903	167,903	-	-	RESTATEMENT IN CAPITAL STOCK
956,094	956,094	-	-	PREMIUM ON STOCK SOLD
869,878	869,878	-	-	<b>CAPITAL INCREASE (DECREASE)</b>
5,176,002	5,070,060	105,941		CUMMULATIVE RESULTS AND
EQUITY RESERVE	3,701,499	3,679,284	22,215	RESERVE FOR
SHARES REPURCHASE	1,062,200	1,062,200	-	NET
INCOME	412,303	328,577	83,726	<b>GRUPO CASA</b>

**SABA, S.A.B. DE C.V.** Figures are expressed in thousands of Mexican pesos of purchasing power as of June 2010

	<b>Jan-June</b>
	<b>Jan-June</b>
	<b>Variation</b>
	<b>Apr - June</b>
	<b>Apr - June</b>
	<b>Variation</b>
Income Statement	
	2009
	% of sales
	2010
	% of sales
	\$
	%
	2009
	% of sales
	2010
	% of sales

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\$  
%

NET SALES 15,005,389 100.00% 15,327,757 100.00% 322,367 2.15% 7,579,089 100.00% 7,587,329 100.00% 8,240 0.11%  
 COST OF SALES 13,343,111 88.92% 13,596,916 88.71% 253,805 1.90% 6,746,455 89.01% 6,748,572 88.95% 2,117  
 0.03% **Gross Profit** 1,662,279 11.08% 1,730,840 11.29% 68,562 4.12% 832,635 10.99% 838,757 11.05% 6,123 0.74%  
 Operating Expenses  
 Sales Expenses 453,422 3.02% 445,987 2.91% -7,435 (1.64%) 234,861 3.10% 226,758 2.99% -8,103 (3.45%)  
 Administrative Expenses 689,076 4.59% 697,132 4.55% 8,055 1.17% 350,654 4.63% 342,528 4.51% -8,126 (2.32%)  
 Operating Expenses 1,142,499 7.61% 1,143,119 7.46% 620 0.05% 585,515 7.73% 569,286 7.50% -16,229 (2.77%)  
**Operating Income** 519,780 3.46% 587,722 3.83% 67,942 13.07% 247,120 3.26% 269,472 3.55% 22,352 9.05%  
 COMPREHENSIVE COST OF FINANCING  
 Interest Paid 121,685 0.81% 138,818 0.91% 17,133 14.08% 60,064 0.79% 81,532 1.07% 21,468 35.74% Interest  
 (Earned) -2,572 (0.02%) -4,252 (0.03%) -1,680 65.31% -1,339 (0.02%) -2,388 (0.03%) -1,049 78.37% Exchange Loss  
 (Gain) 2,110 0.01% -173 0.00% -2,284 (108.22%) -95 0.00% 319 0.00% 414 (437.14%) Monetary Position (gain) 0 0.00%  
 0 0.00% 0 0.00% 0 0.00% 0 0.00% Comprehensive Cost of Financing 121,223 0.81% 134,392 0.88% 13,169  
 10.86% 58,630 0.77% 79,463 1.05% 20,832 35.53%  
 OTHER EXPENSES (INCOME), net -27,355 (0.18%) -21,149 (0.14%) 6,207 (22.69%) -2,262 (0.03%) -13,873 (0.18%)  
 -11,611 513.28%

NET INCOME BEFORE TAXES 425,912 2.84% 474,478 3.10% 48,566 11.40% 190,752 2.52% 203,882 2.69% 13,130  
 6.88%

PROVISIONS FOR:

Income Tax

108,655 0.72% 62,176 0.41% -46,480 (42.78%) 55,041 0.73% 37,845 0.50% -17,196 (31.24%)

Asset Tax

0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00%

Deferred Income Tax

-11,320 (0.08%) 0 0.00% 11,320 (100.00%) -11,320 (0.15%) 0 0.00% 11,320 (100.00%)

Profit sharing due

0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00%

Deferred Profit sharing due

0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00% Total taxes 97,335 0.65% 62,176 0.41% -35,160 (36.12%) 43,721  
 0.58% 37,845 0.50% -5,876 (13.44%)

Net Income Before Extraordinary Items 328,577 2.19% 412,303 2.69% 83,726 25.48% 147,030 1.94% 166,037 2.19%  
 19,007 12.93%

Extraordinary Items (Income) 0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00% 0 0.00% **Net Income** 328,577 2.19%  
 412,303 2.69% 83,726 25.48% 147,030 1.94% 166,037 2.19% 19,007 12.93%

Depreciation and Amortization 42,046 0.28% 35,466 0.23% (6,580) (15.65%) 22,761  
 0.30% 14,611 0.19% (8,150) (35.81%) **Operating income plus Depreciation and Amortization**  
 561,826 3.74% 623,188 4.07% 61,362 10.92% 269,881 3.56% 284,083 3.74%  
 14,202 5.26%

Minority Interest 1,439 -3,321 -0.02% -4,760 -330.77% -3,423 -0.05% -3,423 0.00%