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Bloomberg ticker	ALICORC1
No. of shares outstanding	847 M
	ALICORC1
Present share price	7.19
52Week Low	5.68
52Week High	8.00
Market Cap	6,136 M

Main shareholders	Country	%
Grupo Romero	Peru	45.7%
A.F.P. Integra	Peru	10.05%
Prima AFP	Peru	9.18%
ProFuturo AFP	Peru	6.46%

	2016	*F 2017*	*F 2018*
Revenue	6,629	6,681	7,090
EBITDA	661	757	813
EBIT	480	583	635
Net Income	302	290	328
Net Debt	1,344	1,491	1,357
Net Debt/ EBITDA	*2*	*2*	*1.7*

Returns	ALICORC1	IGBVL
3M Return	2.3%	-2.0%
1Y Return	25.5%	5.2%
2Y Return	34.2%	-4.2%

Alicorp: Peru's dominant palm oil player has NDPE opportunity

Alicorp is one of the largest consumer goods companies in Peru. It has an important presence in Latin American countries. Alicorp is a domestic market leader in various product categories in the following business segments: consumer goods, B2B and aquaculture. It dominates the Peruvian oils and fats sector, and is the major buyer of palm oil for domestic use in Peru. Grupo Romero, one of the leading family-owned company groups in Peru, owns 45.7 percent of Alicorp.

Key Findings

- **Between 2000 and 2015, an estimated 40,000 hectares (ha) of primary forest have been cleared for palm oil plantations in Peru.** While this represents a minor share of overall deforestation in Peru, it also corresponds to 52 percent of the cultivated area for oil palm in Peru. Alicorp is a major buyer of Peruvian palm oil. But it does not yet have a public No Deforestation, No Peat, No Exploitation (NDPE) commitment in place.

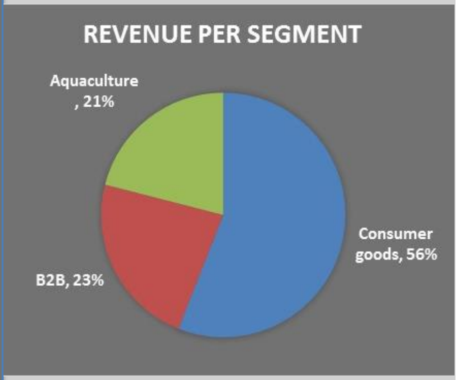
- **The lack of a NDPE policy poses business risks for Alicorp.** Zero-deforestation is rapidly becoming a requirement to access international buyers. An important and increasing number of domestic consumers value sustainability initiatives.

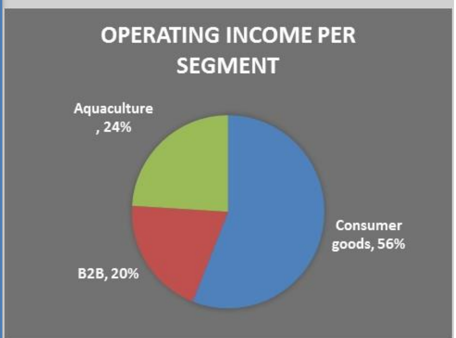
- **Four percent of Alicorp's revenue may be at risk due to increased demand for zero-deforestation products.** For the consumer goods segment, changing consumer behavior could put three percent of revenue-at-risk. Additionally, the B2B segment may add one percent revenue-at-risk. This could mean a 12 percent equity price decline.

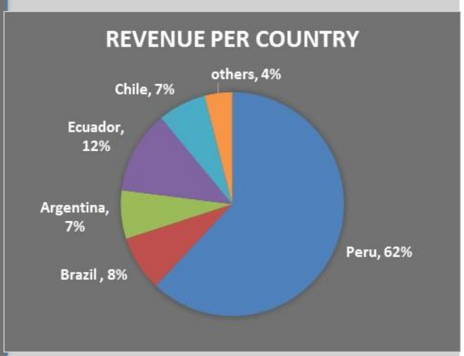
- **Financial institutions increasingly recognize deforestation as a material financial risk.** The lack of a public zero-deforestation commitment could prevent Alicorp's access to finance from international markets, reduce enthusiasm for future bond or share issuance and raise their cost of debt. BlackRock has recognized deforestation as a material climate-change related risk.

- **A strict cross-commodity NDPE policy could make Alicorp Peru's frontrunner in the drive to halt deforestation and expand its competitive advantage into international markets**. It could align the company with efforts by the Peruvian government and other stakeholders, which could increase the company's market value.

- **Alicorp's adoption of an NDPE policy would reduce the Peruvian market for palm oil linked to deforestation**. Alicorp is 45.7 percent owned by Grupo Romero. Grupo Romero wholly owns Alicorp's competitor Grupo Palmas, which is Peru's largest palm oil producer. Alicorp's board overlaps with Grupo Palmas' board, although they directly compete against each other in the B2B segment. With Grupo Palmas, an Alicorp NDPE policy that applies to all affiliated companies would cover nearly the entire Peruvian palm oil value chain.







Business Lines and Segments

Alicorp is one of the largest consumer goods companies in Peru. It is listed on the Bolsa de Valores de Lima. Alicorp's largest shareholder, with 45.7 percent, is Grupo Romero. Alicorp has more than 7,000 employees and 25 factories across 13 Latin American countries. Alicorp has three business segments:

- **Consumer Goods**: This segment encompasses packaged goods, home care and personal care products. It includes edible oils, laundry care, pastas, sauces, cookies and crackers. These represent 56 percent of Alicorp's total revenues. Peru generates 65 percent of Alicorp's consumer goods revenues, while the remainder comes from other Latin American countries.
- **Business-to-Business (B2B):** This segment includes bakeries, industrial goods and food services. It provides 22 percent of the company's revenue. The entirety of Allicorp's B2B revenues are generated inside Peru. This segment produces and markets industrial baking flour, shortenings, margarines and industrial sauces.
- **Aquaculture:** The Aquaculture segment's primary activities are in Ecuador. This segment produces fish and shrimp feed and represents 22 percent of Alicorp's revenues.

Alicorp's total FY2016 revenues were USD 1,915 million (PEN 6,629 million). In this period, Alicorp had operating incomes of USD 183 million (PEN 632 million) and net profits of USD 87 million (PEN 302 million). Its operating income margin is 9.5 percent and its net profit margin 4.6 percent.

Of Allicorp's international markets, Ecuador generates 12 percent of revenue, Brazil 8 creates percent of the revenue, Argentina produces 7.3 percent of the revenue and Chile provides 7.4 percent of the revenue.

The consumer goods segment has a 9.8 percent operating margin, while the B2B segment has a 8.9 percent operating margin. The aquaculture segment has a 11 percent operating margin. The company also reports that 1 percent of its revenue is sales to affiliated companies including Panificadora Bimbo del Perú S.A., Industrias del Espino S.A. and Industrias del Aceite S.A.

In Peru, Alicorp has a leading market share in various consumer goods products categories. These range from laundry detergents and soaps to cooking oil and mayonnaise. Alicorp has a leading 43 percent market share of the oils and fats sector in Peru. It also owns the leading pasta brand in Brazil.

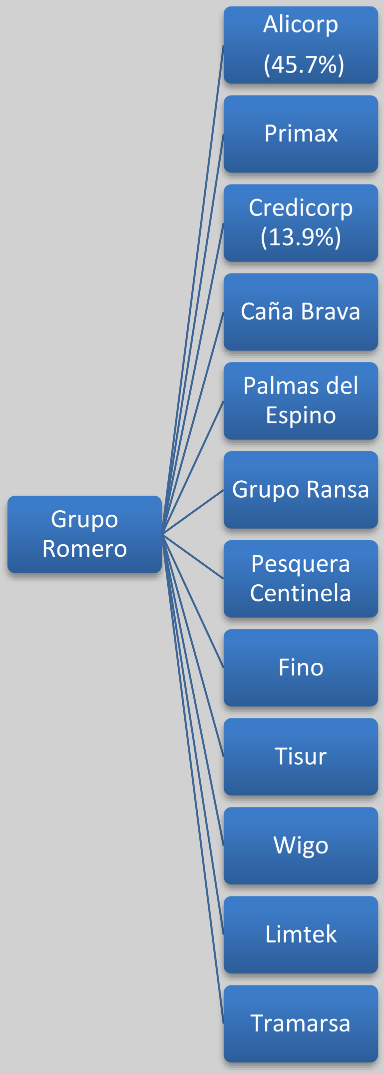
In the B2B segment, the company has the highest market share in Peru for industrial baking flours, shortenings and Industrial margarines. Alicorp's main competitor for the last two products is Grupo Palmas, a wholly owned subsidiary of Grupo Romero.

Alicorp's aquaculture segment leads the Peruvian market, as well as the market for shrimp feed in Ecuador.

Shareholders and Board Composition

Alicorp's largest shareholder, Grupo Romero, is one of the largest privately-owned conglomerates in Peru. The group is active in the following industries:

- Consumer goods: Alicorp, Fino and Grupo Palmas



- Agribusiness: Caña Brava, Grupo Palmas and Grupo Ransa
- Energy: Primax and Caña Brava
- Fisheries: Pesquera Centinela
- Logistics: Grupo Ransa, Tisur and Tramarsa
- Business services: Wigo and Limtek
- Financial services: Credicorp

Grupo Romero is the largest shareholder of Credicorp. Credicorp is the Peruvian financial conglomerate that owns Banco de Credito del Peru (BCP). Credicorp trades as BAP on the NYSE.

The majority of the board seats of Alicorp are held by members of the Romero family. These interlocking board seats provide for a business advantage between Alicorp and other Grupo Romero owned companies. Alicorp's board overlaps with Grupo Palmas' board, although they directly compete against each other in the B2B segment. For example, some interlocks include:

- Dionisio Romero Paoletti, the president of Grupo Romero, is also chairman of the board of both Alicorp and Grupo Palmas.
- Jose Antonio Onrubia and Calixto Romero hold director positions at both Alicorp and Grupo Palmas.

Alicorp's interlocking board seats with its direct competitors present material governance risks regarding executives' loyalty to shareholders and raises broader legal concerns regarding Peruvian anti-monopoly laws.

ESG Risks and Opportunities

Alicorp is the largest buyer of palm oil for domestic use in Peru. Alicorp's market position means it is exposed to material financial risks from deforestation. This is because it manufacturers palm oil products. Since 2014, there has been global recognition that palm oil buyers, traders and refiners are exposed to material risks related to deforestation and human rights practices in their supply chains as international buyers become increasingly unwilling to do business with these companies. Currently, at least 450 corporations globally have NDPE policies that prohibit procurement of products linked to deforestation.

Alicorp primarily purchases palm oil from refineries owned by the Junta Nacional de Palma Aceitera del Peru (JUNPALMA). JUNPALMA is association of 7,300 small and medium-sized palm growers in Peru. Alicorp currently obtains 90 percent of its palm oil from JUNPALMA. The remainder is purchased from other manufacturers like Grupo Palmas. JUNPALMA's members manage 33,000 ha of oil palm plantations. Grupo Palmas and JUNPALMA combined represent 90 percent of planted oil palm in Peru. JUNPALMA's oil palm growers are located in the regions of Loreto, San Martin, Ucayali and Huánuco.

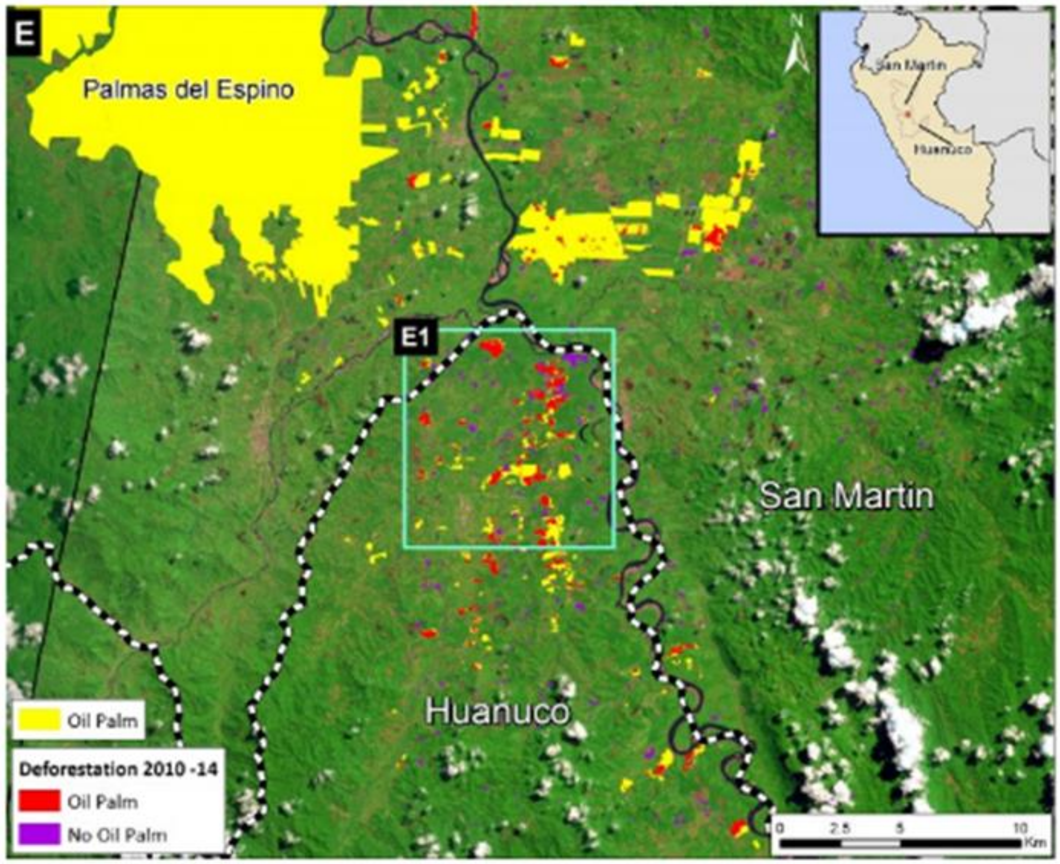
Palm Oil Drives Peruvian Deforestation

From 2000- 2015, 28,000 ha of primary forest were deforested for large-scale oil palm plantations in Peru, equal to 36 percent of the total area cultivated for oil palm. In addition, according to a 2011 estimate, 30 percent of the 40,000 ha small-scale oil palm plantations has been developed in forested areas, adding another 12,000 ha of forest loss. A 2015 synthesis report by the Monitoring of the Andean Amazon Project (MAAP) identified large-scale oil palm as a deforestation driver.

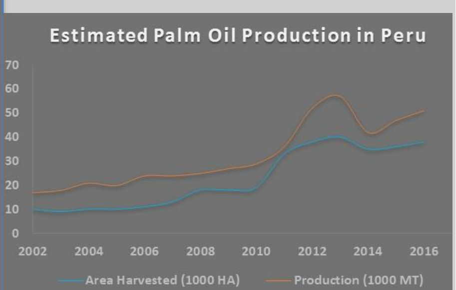
In 2015, the Environmental Investigation Agency (EIA) reported on the expansion of palm oil that threaten the Amazon forests. In addition to deforestation, this report also highlighted community conflicts and illegal clearings. Grupo Palmas is currently taking steps to address zero-deforestation. Grupo Palmas new policy is described in an upcoming Chain Reaction Report company report to be published in April 2017.

Recently, as shown below in Figure 1, MAAP identified small and medium scale palm oil developments as a deforestation driver near the border of the regions of Huanuco and San Martin.

Figure 1 Smallholder driven deforestation



Source: MAAP (Creative Commons Attribution license)



Source: USDA

Oil palm's expansion is the third-largest agricultural driver of deforestation in Peru. The most recent agricultural census (CENAGRO, 2012) concluded that oil palm cultivation was responsible for 1.8 percent of all deforestation in Peru. Small-scale coffee (25.4 percent) and cacao cultivation (8.7 percent) cause the majority of deforestation in the Peruvian Amazon.

Deforestation in Peru Creates Material Business Risks

Despite the deforestation risks present in the Peruvian palm oil supply chain, Alicorp has not published a NDPE policy. Alicorp joined the Roundtable on Sustainable Palm Oil (RSPO) as an ordinary member in January 2017, but its RSPO commitments are not yet on the same level as other Peruvian companies.

The lack of an NDPE policy creates revenue-at-risk. Zero-deforestation is rapidly becoming a condition for access to international buyers. As of March 31, 2016, 61 percent of all companies active in palm oil value chains have made a public commitment to NDPE, including large consumer goods multinationals and trading companies that dominate global palm oil trade. These commitments are increasingly covering other commodities including soy, beef and timber.

Alicorp's links to deforestation in Peru pose material business risks. These can occur in the B2B segment for any product sold to local subsidiaries of multinationals with NDPE policies, or in the consumer goods segment where a growing number of domestic consumers value sustainability.

Financial institutions increasingly commit not to support companies linked to deforestation. This parallels zero-deforestation policies by buyers and consumer goods companies. Partly in response to high-profile cases in Indonesia, deforestation is recognized as a material financial risk. Pension funds, asset managers, banks and other investors are more frequently setting zero- deforestation targets and criteria for in their portfolios and lending activities.

The lack of a public zero-deforestation policy could create difficulties for Alicorp to access finance from international markets. There may be reduced enthusiasm for future bond or share issuance. This might create higher cost of debt.

Alicorp's lack of a NDPE policy exposes it to reputational risks linked to sustainability issues in its supply chain. Such criticism, and the filing of formal complaints at the RSPO or other grievance mechanisms, can have a negative impact on the firm's reputation. Reputational risk leads not only to loss of customers or higher cost of capital, but could also create other difficulties, such as attracting and retaining staff.

NDPE Policies

- Cover third party suppliers and affiliated companies
- Publication of full list of suppliers
- Adoption of the prevailing approach to High Carbon Stock (HCS)
- Recognition of international human rights and labor standards
- Setting a clear timeline for a 100 percent deforestation-free supply chain
- A company-level grievance mechanism

NDPE Policies Creates Business Opportunities

Adopting and implementing a NDPE policy creates business opportunities for Alicorp. Developments in the international palm oil market provide a number of useful examples of what a policy looks like.

NDPE policies create a competitive advantage. According to Alicorp's public affairs and sustainable development manager, a zero-deforestation policy is well aligned with the company's mission. The implementation of a zero-deforestation policy is easily achievable with the coordinated efforts of farmers, the public sector, and NGOs. Alicorp's recent membership of the RSPO can be seen as the first step in this process.

Adopting a NDPE policy creates the following competitive advantages:

- Gaining and maintaining access to corporate clients with NPDE policies. As of March 2017, nearly 450 companies have committed to zero deforestation.
- Expanding opportunities for international market growth.
- Improving access to capital, including financial institutions with NDPE policies.
- Retaining domestic market segments that value sustainability – 62 percent according to a 2013 Nielsen research.
- Growing international brand reputation.

A NDPE policy could make Alicorp Peru's frontrunner in the drive to halt deforestation in the Amazon. Taking a leading role would align the company with efforts by the Peruvian government and other stakeholders. Globally, consumer goods companies are moving towards a more sustainable approach. For example, the Consumer Goods Forum and Tropical Forest Alliance 2020 (TFA 2020) have a global partnership focusing on reducing deforestation from the production of palm oil, soy, beef and pulp & paper. Although currently there are no other Peruvian firms with public NDPE policies, Alicorp competes with international brands with NDPE palm oil procurement policies.

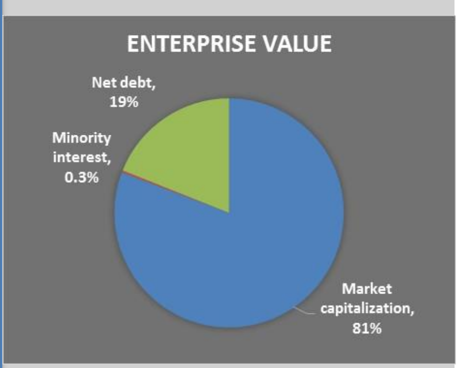
Since 2009, the Peruvian government has **officially committed to net zero-deforestation by 2021.** Peru's National Forestry and Climate Change Strategy (ENBCC) is the primary framework through which the 2021 target is to be achieved. It proposes an integrated landscape approach to forest conservation and restoration. Peru aims to invest in smallholder agriculture, monitor forests, formalize land use rights and strengthen conservation efforts by improving production on existing and degraded farmland. Alicorp could gain advantage by further developing a smallholder strategy and incorporating smallholders more fully into its growth plans.

The most significant development to promote zero-deforestation palm oil in Peru is captured in the "National Plan for Sustainable Development of Palm Oil 2016 – 2021" (PNDS 2016). Alicorp along with the broader palm oil sector, civil society and the government participated in the creation of this national plan. It comprises legislative proposals, potential public-private partnerships, mechanisms to increase yields and financial mechanisms. These components all seek to ensure sustainable supply in line with overall projected demand by 2025. To match the growing domestic palm oil demand, the cultivation area needs to be expanded or productivity rates need to be improved. Land potentially available for zero-deforestation development is estimated at roughly one million hectares.

Alicorp has significant market influence. As a major buyer of Peruvian palm oil, Alicorp's adoption of a NDPE policy would greatly reduce the market for any palm oil linked to deforestation. Such an approach could also enable Alicorp to become an "anchor" company in public-private partnerships. It would not only further diminish palm oil as an economic driver of deforestation in the Peruvian Amazon, but it could also provide a stimulus to the development of a healthy and deforestation-free palm oil industry, with associated benefits to a range of different stakeholders.

Grupo Romero's corporate structure could facilitate broader zero-deforestation policies. Alicorp is 45.7 percent owned by Grupo Romero. Grupo Romero wholly owns Alicorp's competitor Grupo Palmas, which is Peru's largest palm oil producer. With Grupo Palmas, an Alicorp NDPE policy that applies to all affiliated companies would cover nearly the entire Peruvian palm oil value chain. If Alicorp publishes a cross-commodity NDPE policy, this could include other commodities that Alicorp purchases.

Grupo Palmas is currently taking steps to address zero-deforestation. Grupo Palmas new policy is described in an upcoming Chain Reaction Report company report to be published in April 2017.



Alicorp: Equity and Debt Structure

In March 2017, Alicorp's market enterprise value is USD 1,868 million (PEN 6,132 milion). In the fiscal year 2016, Alicorp EBITDA was USD 238 million (PEN 802 million) with a 12 percent margin and an EPS of USD 0.35. Alicorp carried net debts of USD 352 million (PEN 1,332 million), which is 19 percent of enterprise value.

Equity Investors

As shown in Figure 2 below, equity investors, accounting for 83 percent of Alicorp enterprise value, have an important role in financing the company. After the 45.7

percent of the company owned by Grupo Romero, 23.4 percent is owned by pension funds, 16.2 percent is owned by investment funds, while other groups own 11.7 percent of the shares.

Figure 2 Equity investors in Alicorp

Investor*	Country	% outstanding
Birmingham Merchant	Peru	11.04%
A.F.P. Integra	Peru	10.05%
Prima AFP	Peru	9.18%
Grupo Piurano de Inversiones	Peru	7.79%
ProFuturo AFP	Peru	6.46%
Credicorp (Atlantic Security Bank)	Peru	5.50%
LGM Investments Limited	United Kingdom	1.18%
Parametric Portfolio Associates	United States	0.94%
BlackRock	United States	0.57%
Government Pension Fund Global	Norway	0.50%
Total		**53.21%**

*Grupo Romero shares are represented by Birmingham Merchants, Grupo Piurano and other holding companies and individual family investors.

Source: Thomson Reuters

Between 2012 and 2015 the Norwegian Government Pension Fund, the world's largest institutional investor, divested from more than 30 palm oil companies due to high risk that they contribute to tropical deforestation. In a 2016 report the pension fund stated that too many problems persist for the palm oil sector as a whole to be worth the risk of reinvesting in the sector. Additionally, BlackRock has recognized deforestation as a material climate-change related risk. Its proposed shift to make bond portfolios climate-friendly excludes any company that fails to address deforestation-related risks in its supply chain – including food producers and retailers.

Banks

As shown below in Figure 3, Alicorp's total long-term debt amounts to USD 410 million (PEN 1,375 million), while their short-term debt is USD 73 million (PEN 243 million). They have a 33 percent long-term debt to total capital ratio, and a net debt to EBITDA multiple of 1.7. The company has worked to reduce its debt levels, going from a net debt to EBIT of 7.2x in 2014 to 2.1x in 2016.

Figure 3 Corporate loans of Alicorp FY2016

Bank	Country	Value (million PEN)
BBVA	Spain	314
Bank of America	United States	80
The Bank of Tokyo	Japan	77
Scotiabank	Canada	51
BDMG	Brazil	15
Citibank	United States	8
Banco do Brasil	Brazil	1
Total		**546**

Source: Alicorp FY2016 financial statement

Forest 500 annually ranks financial institutions between 0 to 5 based on their deforestation policies.

Financial institution	Rank
BBVA	2
Bank of America	4
Scotiabank	1
Citibank	3
Banco do Brasil	4

Peer Group

Figure 3 below compares analysts' consensus estimates for key financial indicators of Alicorp in the coming two years with its peers.

Figure 3 Comparison of Alicorp with peer group on consensus indicators

Company Name	P/E 2017	P/E 2018	EV / EBITDA 2017	EV / EBITDA 2018	Net Debt/ EBITDA
Alicorp	18.7	16.0	9.4	8.7	1.7
Biosev			4.6	3.2	3.5
Grupo Herdez	15.8	14.6	10.1	9.6	4.6
Grupo Nutresa	23.2	19.6	12.6	11.3	2.7
Marfrig Global Foods	44.8	10.3	5.4	4.8	3.2
Nongshim Co	16.5	14.9	6.5	6.0	-2.4
Peer Mean	**18.5**	**16.4**	**8.4**	**7.5**	**2.2**
Peer Median	**16.5**	**14.9**	**8.3**	**7.8**	**3.0**

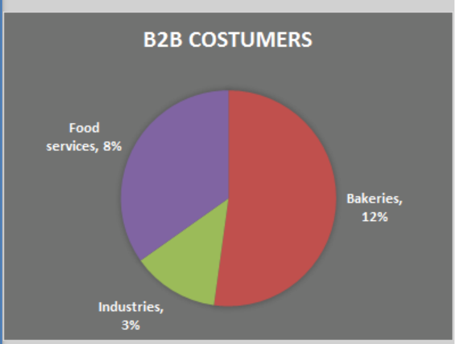
Source: Thomson Reuters

Returns	ALICORC1	IGBVL
3M Return	2.3%	-2.0%
1Y Return	25.5%	5.2%
2Y Return	34.2%	-4.2%

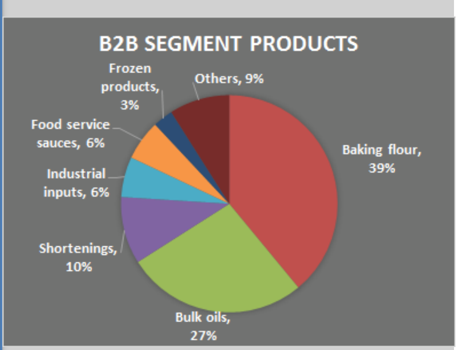
As shown above in Figure 3, Alicorp has a net debt to EBITDA ratio below its peer group. In terms of P/E and EV/EBITDA, the company is above the peer group for the FY2017 and FY2018.

Revenue-at-Risk

Alicorp has stated that it believes an important number of domestic customers value sustainability initiatives, and this is gaining momentum. In a report by PWC, 40 percent of the interviewed businesses considered that sustainability actions have raised profitability. In a 2013 research made by Nielsen, 62 percent of Peruvian costumers have said that they were willing to pay more for products and services of sustainable companies. In the same research, 42 percent claimed to have done so before.



If Alicorp does not follow global sustainability trends, the company may lose market share. Some of its international competitors, such as Unilever, have recognized that long-term sustainability policies are leading to higher market shares. Alicorp's corporate image may deteriorate from being the most admired company in Peru for several years in a row.



The increased demand for zero-deforestation consumer goods could put 3 percent of the company's total revenue-at-risk. This is based on the assumption that out of the 62 percent of consumers willing to pay a premium for sustainable products, 25 percent are motivated by non-deforestation concerns. It is further assumed that of these 16 percent (0.25 x 62 percent) of consumers concerned about deforestation, one third would actually change their product choices accordingly. This could represent a 5.2 percent (0.33 x 16 percent) reduction in Alicorp's consumer goods clients. As the consumer goods segment contributes 56 percent to Alicorp's revenue, the total revenue-at-risk is 3 percent (0.56 x 5.2 percent).

Chain Reaction Research (CRR) is a consortium of Aidenvironment, Climate Advisers and Profundo. CRR conducts sustainability risk analysis for financial analysts and investors, with a special focus on sectors that deal with environmentally intensive commodities in tropical countries. Since 2012, CRR has provided in-depth and reliable analysis to investors about the financial risks inherent in the activities of palm oil and pulp and paper companies in Indonesia. These reports have proven to be a driver for change; investors have used their financial leverage to stimulate companies to adopt No Deforestation policies. The reports have also highlighted the financial risks associated to noncompliance of sustainability standards.

Through a new NORAD-NICFI-funded program, CRR is now expanding the scope of its work to include six additional countries in Africa and Latin America; Brazil, Colombia, Ecuador, Peru, the Democratic Republic of Congo, and Liberia. These are all REDD+ priority countries. Green Century Capital Management, a US-based asset manager, has also teamed up with CRR as part of this consortium.

Additionally, the B2B segment puts 1 percent of the company´s total revenue-at-risk. Alicorp's B2B segment sells to bakeries (12 percent of total revenue), industries (3 percent) and food services (8 percent). Of these clients, only food services and industries are likely to have a non-deforestation policy. Most of the products offered to business clients are linked to the soy or palm oil supply chain, including, bulk oils (27 percent of B2B revenue), shortenings (10 percent), industrial inputs (6 percent), food service sauces (6 percent), frozen products (3 percent) and others (9 percent).

A 2017 report by Forest Trends states that about 60 percent of companies linked to the global palm oil supply chain and 18 percent of those linked to the soy supply chain are committed to zero-deforestation policies. Currently 35 percent of the companies that have headquarters in Latin America and are involved in deforestation-linked supply chains lack deforestation policies. Assuming that Latin American companies could reach the global average (70 percent) in the coming years, a further 35 percent of the industries and food service costumers of Alicorp's B2B segment may implement zero-deforestation policies. Further assuming that half of these clients exclude Alicorp as a supplier, this would reduce Alicorp's industries and food service client base by 18 percent (0.5 x 35 percent). The food services and industries B2B sub-segments (ex flour purchase) represent 7 percent of Alicorp's total revenue. This shift in consumption could thus put 1 percent (0.18 x 7 percent) of revenue-at-risk.

The probability of the 4 percent revenue-at-risk materializing from the consumer goods and B2B segments could be reduced if the company develops a cross-commodity NDPE policy. However, the probability of a 4 percent revenue drop is high if Alicorp does not execute a cross-commodity NDPE policy.

Figure 4 Revenue Forecast

Alicorp, PEN million	*2016*	*FY2017*	*FY2018*
Revenue	6,629	6,681	7,090
Cost of Goods Sold	4,621	4,676	4,963
EBITDA	661	757	813
EBIT	480	583	635
Net Income	302	290	328
Net Debt	1,344	1,491	1,357

Source: CRR, Thompson Reuters

As shown in Figure 4 above, if Alicorp does not adopt a NDPE policy and loses the above-mentioned sales due to market share loss, the PEN 278 million in sales decline would lead to PEN 84 million reduction in EBITDA. If Alicorp does not prevent this and does not adjust their cost base to reflect the loss in revenue, the loss in enterprise value at PEN 793 million or PEN 0.95 per share (12 percent of the share price as of March 9, 2017) may occur.