



GRUPO HERDEZ

FOURTH QUARTER & FULL YEAR 2019 CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

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PRESENTATION

Good morning everyone, and welcome to Grupo Herdez's Fourth Quarter Full Year and 2019 Results Conference Call.

Before we begin, I would like to remind you that this call is being recorded, and that information discussed today may include forward-looking statements regarding the Company's financial and operating performance. All projections are subject to risks and uncertainties and actual results may differ materially. Please refer to the detailed note in the Company's press release regarding forward-looking statements.

At this time, I would like to turn it over to Mr. Gerardo Canavati, CFO and CEO of the Frozen division. Please go ahead, sir.



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Gerardo Canavati Miguel:

Thank you, Sabis. Good morning everyone. Thank you for joining us on today's call.

Uncertainty was a constant throughout 2019 in the International front and domestically. Unfortunately, from what we have seen so far in 2020, this year will prolong the unstable dynamics.

On the domestic front, the country experienced zero growth, something we have not seen since 2009 and there was a clear downtrend throughout the year. Despite the environment, we were able to increase market shares in pasta, vegetables, ice cream and marmalade.

With that said, I will now turn the call over to Andrea to discuss 2019 results and we will talk about our outlook for this year. We will take your questions at the end. Andrea.

Andrea Amozurrutia Casillas:

Thank you, Gerardo. Greetings everyone.

Net sales increased 2.2% during the quarter, and almost 7% for the full year. Growth was mainly driven by price increases over the last 12 months, and to a lesser extent, volume increased.

Net sales in the Preserves segment were \$4.8 billion, which was slightly higher than in the fourth quarter of last year. For the full year, growth achieved a rate of 6.7%. Definitely the quarter growth was the most affected throughout the year.

Net sales in the Frozen segment increased by 7.6% during the quarter and 8.2% for the full year. Nutrisa's average ticket increase was the main driver while at Helados Nestlé we experienced solid topline growth in the most relevant channels, convenience and traditional.

In export, net sales increased 7% in the quarter and 6% for the full year. Growth margin in the quarter was 38.3% which is 80 basis points lower than in the fourth quarter. For the full year the margin dropped 80 basis points too, to 38.5. These declines are explained mainly by an unfavorable sales mix in preserves.

In Frozen, consolidated growth margin contracted by 3.6% in the quarter mainly affected by seasonality, an increase slightly for the full year due to controls in the administrative expense.



In exports, the consolidated margin decreased by 2.3% in the quarter and 50 basis points for the year. SG&A in the quarter was 24.8% of net sales resulting in an increase of 80 basis points over the same period of last year. For the full year, the SG&A represented 25% of net sales which was nearly the same as in the previous year.

The above resulted from higher distribution expenses that were offset by a decline towards the end of the year in marketing and advertising spending.

EBIT for the quarter was Ps. 866 million, 6.3% lower than last year while the margins stayed at 14.5%. For the year, EBIT totaled 3 billion while the margin declined 1% to 13.3%. EBITDA in the quarter was 1 billion, 2.1% higher than last year and in the cumulative figure it was 3.8 billion, 8.6% higher than in 2018. As we have mentioned, these increases are explained by the new accounting rules implemented in the year.

In the fourth quarter our stake on equity investment in afore stated companies was Ps. 244 million, 30% higher than last year. For the full year we recorded a drop of 15.3% as result of extraordinary prices of avocados.

Net income in the quarter was PS. 671 million which was 11.6% lower than in the previous year and in the cumulative figure the drop was 8.2% to 2.2 billion. These declines are the result of lower equity investment in associated companies and higher cost of financing as a result of the adoption of higher IFRS 16.

Our cash regeneration remains strong, allowing us to buyback shares during the year. The total buybacks for the year amounted Ps. 900 million or 5% of total outstanding.

As of December 31, consolidated cash was Ps. 2.3 billion, 14% higher than in 2018. Considering the new debt, interest bearing liabilities totaled Ps. 8 billion with an average life of 4.9 years and an average cost of 8.6%.

Consolidated net debt to EBITDA was 1.7x and 1.6x excluding the effects of the IFRS 16. Net debt to consolidated stockholder's equity ratio stands at 0.36x.

With that, I will now turn the call over to Gerardo.

Gerardo Canavati Miguel:

Thank you, Andrea.



In the Frozen segment, Nutrisa was able to grow same store sales in the mid-single digit range and Helados Nestle experienced healthy topline growth driven by portfolio shift.

We will continue working on innovations adding very exciting new products this year as KitKat. As you know, last December we announced the acquisition of Cielito Querido Café, which is one of the most recognized brands in Mexico's coffee shop segment. Cielito is indicative of the Mexican culture in gastronomy and for the last 10 years has focused on reviving Mexican traditions through innovation.

Additionally, we acquired the Moyo brand, a high-end frozen yogurt brand in Mexico to strengthen our strategy in ice cream.

In line with our commitment to our shareholders, we are currently assessing the feasibility of divesting from our tuna business to improve the Company's portfolio. We expect consumer dynamics to improve slightly together with the economy activity. We are increasing our investment in demand creation in advertising in order to support our three main initiatives: KitKat ice cream sticks, the new line of McCormick mayo, McCormick Balance, and the new image of the Herdez brand.

That said, we are expecting our topline to grow mid-single digits while our gross margin will expand slightly and EBIT and EBITDA margins will remain stable.

In MegaMex we expect sales to grow mid-single digit and EBIT at a high-single digit for the fiscal year.

Gerardo Canavati Miguel:

Thank you for your participation in the call. We look forward to speaking with you again next quarter and please do not hesitate to contact us in the interim. Good morning.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.



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ABOUT GRUPO HERDEZ

Grupo Herdez is the leading producer of shelf-stable foods and one of the main players in the ice cream category in Mexico, as well as the fastest growing company in the Mexican food category in the United States. The Company participates in a wide range of categories including home-style salsas, organic foods, honey, ice cream, jams, mayonnaise, mole, mustard, pasta, spices, tea, tomato purée, tuna fish, among others. These products are sold through an exceptional portfolio of brands, which includes Aires de Campo, Barilla, Blasón, Búfalo, Cielito Querido Café, Del Fuerte, Doña María, Embasa, Helados Nestlé®, Herdez, McCormick, Moyo, Nutrisa, Wholly Guacamole and Yemina. Additionally, the Company has distribution agreements in Mexico for Frank's, French's, Kikkoman, Ocean Spray and Reynolds. Grupo Herdez has 14 manufacturing facilities, 24 distribution centers, 6 tuna vessels, more than 600 points of sale under the brands Cielito Querido Café, Lavazza, Moyo and Nutrisa, as well as a workforce of more than 10,000 employees. The Company was founded in 1914, and has been listed on the Mexican Stock Exchange since 1991. For more information, visit <http://www.grupoherdez.com.mx>

FORWARD-LOOKING STATEMENTS

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