



GRUPO HERDEZ

FOURTH QUARTER AND FULL YEAR 2021 CONFERENCE CALL TRANSCRIPT

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PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez's Fourth Quarter and Full-Year 2021 Earnings Conference Call.

Before we begin, I would like to remind you that this call is being recorded and that the 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 the call over to Mr. Gerardo Canavati, Chief Financial and Information Officer. Please go ahead, sir.

Gerardo Canavati Miguel:

Thank you, Ariel. Good morning, everyone.

Thank you for joining us on today's call. I hope you and your families are doing well.

This quarter's results reflect the power of our brands and the ability of the Company to execute and generate robust and sustained growth. We were able to successfully navigate 2021 and meet the challenges we faced, such as the unprecedented inflationary environment and the disruption in supply chains, while mostly achieving our goals.

I will now turn the call over to Andrea to discuss fourth quarter and full-year 2021 results. As usual, we will take your questions at the end. Andrea?

Andrea Amozurrutia Casillas:

Thank you, Gerardo. Good morning, everyone.

Once again, just as a reminder, 2021 figures are not fully comparable because of: i) the divestiture of our tuna business, ii) the integration of General Mills starting in April, and iii) the end of the distribution agreement with Ocean Spray.

With that in mind, organic sales increased 15.3% in the quarter and 10.0% for the full year. Price increases were the main driver for the quarter and full-year results. Nevertheless, volume in Preserves remained flattish in the fourth quarter and slightly below 2020 figures for the full year. Despite price increases in the last 12 months, we gained market share in 70% of our main categories.



Impulse continues on an upward trend, as not only did the average ticket increased in all brands, but foot traffic in stores improved as well. Nevertheless, recovery by brand has been very different. Helados Nestle sales performed well in all channels, notably in DSD and convenience for the second half of the year.

In exports, net sales increased 8.2% in the quarter, driven by a favorable sales mix, while for the full year sales decreased 5.1%. Full-year performance was impacted by the appreciation of the Mexican peso against the U.S. dollar and glass container shortages.

Consolidated gross margin in the quarter was 37.6%, 80 basis points higher than in the fourth quarter of 2020. The margin increased as a result of a 320 basis points quarter-on-quarter recovery in Preserves and a gain of 500 basis points in the Impulse segment.

On a cumulative basis, gross margin was 36.9%, 50 basis points lower than in 2020, in line with guidance on previous conference calls. This was a result of higher input prices that were partially offset by price increase.

Consolidated SG&A was 22.7% of net sales in the quarter and 25.1% for the full year, 60 and 40 basis points lower versus 2020, respectively, mainly due to the sales recovery in the Impulse segment, which translated into cost absorption.

Consolidated EBIT before other income increased 30.2% in the quarter and 8.3% for the full year. This is the result of double-digit growth in Preserves, along with a recovery of MXN \$152 million in Impulse during the quarter. For the full year, expansion was driven by the recovery of MXN \$293 million, also in the Impulse segment.

Consolidated EBIT increased 6.0% in the quarter due to the recovery of MXN \$163 million in Impulse. For the full year EBIT decreased 7.6% to MXN 3.0 billion. This decrease was the result of higher input prices, as well as extraordinary income registered in 2020 due to the divestiture of the tuna business, and income from the sale of the private equity fund.

EBITDA increased 6.1% in the fourth quarter, while the margin decreased 210 basis points to 18.9%. As mentioned previously, we registered extraordinary income in the fourth quarter of last year; nevertheless, Impulse had positive EBITDA for the quarter that was MXN \$172 million higher than last year. On a cumulative basis, EBITDA decreased 6.0%, representing 15.1% of net sales, mainly due to lower EBITDA on Preserves.



In the quarter, income from unconsolidated companies was MXN 225 million, 15.9% lower than in 2020 because of the extraordinary results presented by MegaMex last year. On a cumulative basis, income totaled MXN 803 million, 6.1% higher than last year, due to better results at MegaMex, specifically at Don Miguel. However, these higher results were partially offset by the appreciation of the Mexican peso and higher results of other companies including in these headlines.

Consolidated net income for the quarter was MXN 690 million, while for the full year it totaled MXN 2.0 billion. Not taking into account extraordinary income last year, consolidated net income remained flat with a margin contraction of 70 basis points.

Our financial structure at year-end remained strong. Cash stood at MXN 2.2 billion, and interest-bearing liabilities were at MXN 10.0 billion, MXN 500 million higher than in 2020.

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

Gerardo Canavati Miguel:

Thank you, Andrea.

Inflation and supply chain bottlenecks remain the hot topics for the time being, and they are sticking for a while. Despite the challenges, we were able to prioritize our product placement on store shelves as we continued working closely with our entire supply chain to make sure our products are always available for our consumers.

As we mentioned in our earnings release, we feel optimistic for the following years. We are expecting mid-teens sales growth for Preserves and on a consolidated level. Growth in Preserves will mainly be driven by strong pricing that will not be enough to offset input cost pressures completely.

We expect a strong rebound in the Impulse segment, with sales growth in the low 30s, mainly as a reflection of higher traffic in stores, which we began seeing in the second half of 2021. We also expect to see employees returning to corporate office that will help traffic.

Thus, consolidated gross margins will decrease around 150 basis points for the full year, while in Preserves we expect between 200 and 250 basis points erosion. However, for Impulse, we expect an increase of 400 basis points due to operating leverage.

SG&A is set to remain stable compared to 2021, mainly driven by Impulse.



EBIT and EBITDA will increase in the low 20s, with margin expansion between 50 and 90 basis points.

We are expecting Capex of MXN 1.2 billion, which includes the conclusion of expanded capacity in pastas, salsas, vegetables, tomato puree and building a new line to manufacture RedHot Frank's and French's, as well as IT projects.

Finally, Grupo Herdez was recognized by MERCO for the ninth consecutive year as one of the 100 Companies with the Best Reputation in Mexico, something that we are very proud of. This year, we ranked fourth in the Food sector and seventeenth in the general list of companies, rising two and 31 positions respectively.

In addition, the Company got in the top 10 of MERCO's 100 Most Responsible ESG Companies, ranking fourth in Environmental Issues, seventh in Social Issues and tenth in Governance of the 100 companies evaluated.

This concludes our prepared remarks, and we will take your questions. Ariel, please go ahead.

Gerardo Canavati Miguel:

Thank you, Ariel. Thank you for your participation on the call today. We look forward to speaking with you again next quarter, and please do not hesitate to contact us in the interim. Bye.

Operator:

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



CONTACTS

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ABOUT GRUPO HERDEZ

We are proud to be the oldest Mexican food company in the country. Since 1914, we have been bringing Mexican families the best of our cuisine and the flavors of the world, and taking the most delicious flavors of Mexico to the rest of the globe. We have been listed on the Mexican Stock Exchange since 1991, and our mission is to be a worthy representative of Mexico worldwide.

We are leaders in the processed foods sector, and an important player in the ice cream category in Mexico, in addition to being the fastest-growing company in the Mexican food segment in the United States through Megamex. We are currently present in 99% of Mexican households through our large portfolio of more than 1,500 products, with which we provide solutions to the daily lives of our consumers, offering them variety and convenience for different lifestyles. We participate in the categories of tuna, spices, guacamole, ice cream, impulse, yogurt, mayonnaise, marmalades, honey, mole, mustard, pastas, organic products, tomato purée, homemade salsas, ketchup, tea, canned vegetables, and many more, and we are leaders in several of these categories in Mexico. These products are sold through an exceptional portfolio of brands, including: Aires de Campo, Barilla, Blasón, Búfalo, Cielito Querido Café, Del Fuerte, Doña María, Embasa, Helados Nestlé®, Herdez, McCormick, Moyo, Nutrisa and Yemina.

We are committed to the social and environmental needs of the locations where we operate, and have aligned our sustainability strategy with the United Nations 2030 Agenda. This vision is shared with an exceptional team of more than 9,000 employees, and it is implemented through the solid infrastructure of our 14 production plants, 25 distribution centers, and more than 600 points of sale of our brands: Cielito Querido Café, Lavazza, Moyo, and Nutrisa.

For more information, visit grupoherdez.com.mx or follow us on: FB: /GrupoHerdezMX TW: @GrupoHerdezMX LI: /Grupo-Herdez

FORWARD-LOOKING STATEMENTS

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