



GRUPO HERDEZ

FIRST QUARTER 2022

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

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PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez's First Quarter 2022 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 Ms. Andrea Amozurrutia, Director of Finance and Sustainability. Ms. Amozurrutia, please go ahead

Andrea Amozurrutia Casillas:

Thank you, Sha. Good morning, everyone. Thank you for joining us on today's call. I hope you and your families are doing well.

We started the year on the right foot. Despite skyrocketing inflation and continued pressure on commodities, we managed to post a strong performance. Without a doubt, despite still challenges, we are very optimistic about the recovery trends that we continue to see in our impulse segment.

With that, I will now turn the call over to Guillermo. Unfortunately, Gerardo will not be able to join us on today's call. As usual, we will gladly take your questions at the end of our prepared remarks. Guillermo?

Guillermo Pérez Tinoco:

Thank you, Andrea. Good morning, everyone.

Net sales increased 21.5% in the quarter. While price increases were the main driver for the quarter, volume was responsible for 20% of the growth. Preserves increased 19.9% with a similar behavior as the consolidated level driven mainly by wholesale and supermarkets.

Impulse continued its sequential recovery due to ongoing improvement in foot traffic in stores and price increases by the segment, which translated into a higher average ticket. Similarly, the DSD channel in Helados Nestle had outstanding performance, continuing its trend from the last half of 2021.

In exports, net sales increased 23.9% in the quarter, driven by volume and pricing actions.

Consolidated gross margins in the quarter was 36.2%, 130 basis points lower than in the first quarter of 2021, as a result of high input prices, labor reform and the incorporation of General Mills into the portfolio. The margin was mainly impacted by a 230 basis-point decrease in Preserves due to higher cost of raw and packaging materials.

Consolidated SG&A was 24.8% of net sales in the quarter, 180 basis points lower than the first quarter of 2021, due to sales absorption.



Consolidated EBIT and EBITDA increased 29.3% and 23.6% with a margin expansion of 70 and 30 basis points, respectively. This is the result of double-digit growth in Preserves and Exports, along with the recovery of the impulse segment.

In the quarter, income from unconsolidated companies was MXN 104 million, 57.4% lower than in 2021, because of a 61.7% decrease in the results of MegaMex caused by higher avocado prices, which were more than four times previous prices and greater logistics expense.

Consolidated net income for the quarter was MXN 464 million, 14.3% lower than last year, with a margin contraction of 280 basis points. This was impacted by lower results of MegaMex as well as higher income taxes due to proceeds from operations in the United States in 2021.

Our financial position at year-end remains strong: cash stood at MXN 3.0 billion and interest bearing liabilities were MXN 11.0 billion, MXN 500 million higher than the first quarter of 2021, remaining flat against the end of last year.

Thanks for your attention. I will now turn the call back over to Andrea.

Andrea Amozurrutia Casillas:

Thank you, Guillermo.

Just when it seemed that the impact of COVID was beginning to disappear, the war in Ukraine increased the pressure on the already challenging condition of commodities and energy. As well, the declining inventories and jobs have exacerbated the prices of commodities, making inflation register record levels in 20 years. Due to the combination of all the above factors, along with the mobility restrictions recently applied in China, we do not expect the stability of the global supply chain to happen in the near future.

Despite the numerous headwinds, the results for the first quarter are encouraging. On one hand, the Preserves division continue to register volume growth despite aggressive pricing actions taken in the last 12 months. On the other hand, the retail operation as well as DSD sales continued its historic trend, both compared to last year and quarter-over-quarter. At this pace, we expect our stores to return to 2019 levels at the end of this year, fully aligned with our expectation.

Conversely, MegaMex was significantly impacted by skyrocketed prices of avocado, that as Guillermo mentioned, have quadrupled when compared to last year. Despite pricing actions, we do not expect the



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margins to recover 2020 levels in the near future, and we will continue to optimize SG&A and improve sales in order to offset as much as possible of these impacts.

Finally, as you are all aware, yesterday we held our Annual Shareholders Meeting. Part of the resolutions stating where a dividend of MXN 1.20 per share was approved. As in previous years, it will be paid in two installments in May and October. The share buyback program was increased to \$2.5 billion. As in previous years, this does not mean that it will be used immediately. On the contrary, we will continue to be very prudent and add value as much as possible. We will cancel 10 million shares coming from treasury and the final count of shares outstanding will be 354 million shares. For the full minute, please visit our website.

With that, we end our prepared remarks, and I will turn the call back to Sha so we can take your questions. Please go ahead.

Andrea Amozurrutia Casillas:

Thank you, everyone, for your participation on the call today. We look forward to speaking with you in the next quarter. Please do not hesitate to contact us in the interim if you have further questions. Have a nice weekend.

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 1,380 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 10,000 employees, and it is implemented through the solid infrastructure of our 13 production plants, 24 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: /GrupoHerdexMX TW: @GrupoHerdexMX LI: /Grupo-Herdex

FORWARD-LOOKING STATEMENTS

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