



GRUPO HERDEZ

FIRST QUARTER 2023

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

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PRESENTATION

Operator:

Good morning everyone and welcome to the Grupo Herdez First Quarter 2023 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. Guillermo Perez, Investor Relations Manager. Mr. Perez, please go ahead.



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Guillermo Pérez Tinoco:

Thank you, Gary.

Good morning everyone. Thank you for joining us on today's call. We appreciate your interest in Grupo Herdez.

We started the year with great momentum, boasting strong results. Despite persistent inflationary pressures and constant setbacks around the globe, we do think inflation has peaked and consumption, although soft, should remain stable.

Net sales rose 21.4% in the quarter, while price increases were still the main driver for the quarter, total volume remained flattish. Net sales in Preserves grew 23.6%. By category, tuna, mayonnaise, pasta, and tomato purée increased more than the average, while foodservice and price club channels also outperformed. The addition of Mediterranean acquisition in the fourth quarter of 2022 contributed with 2.2 percentage points to the growth of this segment.

Impulse was also an outlier, with sales growing 22.6% in the quarter; recovery of foot traffic in stores was the main driver for higher average ticket. Similarly, the performance of the traditional channel at Helados Nestlé continued with a good trend.

In exports, net sales increased 2.4% in the quarter, mainly driven by a stronger Mexican peso, while on a dollar basis; sales increased 7.3% despite softer volume than expected.

Consolidated gross margin in the quarter was 36.4%, 20 basis points higher than in the first quarter of 2022, as a result of the pricing catch-up versus high input prices.

Consolidated SG&A was 24.2% of net sales in the quarter, which was 60 basis points lower versus the first quarter of 2022, due to expense absorption resulting from top line growth.

Thank you for your attention. Let me now turn the call over to Andrea.

Andrea Amozurrutia Casillas:

Thank you, Guillermo.

Consolidated EBIT and EBITDA increased 25.2% and 22.3%, while margins expanded 40 basis points and 10 basis points, respectively. This is a result of the expansion in Preserves and the recovery of the Impulse segment.

In the quarter, income from unconsolidated companies was MXN 295 million, 185% higher than in 2022, due to a threefold recovery at MegaMex, as was expected, mainly driven by price increases and lower avocado prices.

Consolidated net income for the quarter was MXN 797 million, 72% higher than last year, with a margin expansion of almost 300 basis points to 9.2%. Consolidated net income benefited from the recovery of MegaMex, as well as a stabilized income tax rate.

Our financial position remained strong. Cash in hand stood at MXN 3 billion, which is 27% higher than at the year-end of last year. Interest-bearing liabilities were MXN 10.5 billion, flat against December.

Free cash flow for the quarter was MXN 950 million, or 11% of sales, which is a record, driven by a strong net income as well as working capital improvements across all components.



For the second year in a row, Grupo Herdez received the distinction of being ranked in the Top 10 of MERCO's 100 Companies with the Most ESG Responsibility. This year, Grupo Herdez placed eighth overall and third among food companies.

With that, I will now turn the call over to Gerardo for our final prepared remarks.

Gerardo Canavati Miguel:

Thank you, Andrea.

As we foresaw, the dynamics in consumption moderated towards the end of the quarter; however, we expect the outlook to remain stable as inflation is beginning to show signs of slowing down and GDP is solid across the board.

The results in Preserves were mainly driven by pricing. Despite the flattish volume, our share of market in general remains stable. Foot traffic had a positive effect on the Impulse segment as different strategies were implemented and we incorporated additional stores of Chilim Balam during the quarter. Sales rebounded and grew 22.6% during the quarter. We expect to maintain this momentum for the rest of the year.

MegaMex on an easy comp rebounded as pricing action took place and avocado prices decreased. Nevertheless, while on pesos, figure growth was flat compared to 2022, on US dollar terms, sales grew on the high single-digit frontier.

Guidance discussed in the last conference call has shifted a bit; as foreign exchange had an impact, so let me provide you with an update.

We expect net sales to grow in the mid double-digits, where Preserves would show mid-teens, exports will be flattish, and Impulse will grow in the low 20s.

In terms of gross margin, we expect Preserves to grow versus last year between 120 basis points and 130 basis points, Impulse between 50 basis points and 60 basis points, and exports with a flat gross margin.

In terms of EBIT and EBITDA, we expect 100 basis points higher than last year; where Preserves would have the same, Impulse will have 200 basis points higher, and exports will be flattish.

Net income and majority net income are expected to grow 30% and 50%, respectively, for the full year.

Yesterday we had our annual shareholders meeting in which MXN 1.20 dividend per share was approved, and the cancelation of 19.6 million shares. As well, the share buyback program has been approved at MXN 2 billion.

Thank you for your attention. We will now take your questions. Gary, please go ahead.

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, as leaders in guacamole production and marketing, as well as in the categories such as salsa and frozen Mexican food. 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, Flaveur, Frank's, French's, Helados Nestlé®, Herdez, Libanius, Liguria, 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 7 of the United Nations 2030 Agenda. This vision is shared with an exceptional team of more than 10,500 employees, and it is implemented through the solid infrastructure of our 15 production plants, 24 distribution centers, and more than 690 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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