



# GRUPO HERDEZ

SECOND QUARTER 2023

CONFERENCE CALL TRANSCRIPT

## CORPORATE PARTICIPANTS

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## CONFERENCE PARTICIPANTS

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## PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez's Second 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 Andrea Amozurrutia, Head of Finance and Sustainability. Ms. Amozurrutia, please go ahead.



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## **Andrea Amozurrutia Casillas:**

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

As you saw in our earnings release, net sales rose 14.2% in the quarter and 17.7% for the first six months. The growth continues to be fueled by pricing actions implemented in the last twelve months, while volume performance finally showed some pause, as we expected since last year.

By segment, Preserves grew 17% in the quarter with mayo, tomato purée, spices and homestyle salsas as the best performing categories during the quarter as well as wholesale and price clubs in terms of value. Net sales for the first half grew 20.3%, and Mediterraneo contributed with 1.8 percentage points to the growth of the segment.

Top line in the Impulse segment continues its sequential traffic recovery in stores, while DSD performance of Helados Nestle continued to be very strong. Net sales for the quarter and six months recorded increases of 12.7% and 16.8%, respectively. It is important to mention that the incorporation of Chilim contributed with 8 and 7 percentage points growth to the quarter and the first six months of the year.

In Exports, net sales decreased by 9% in the quarter and 6% year-to-date, mainly driven by a stronger Mexican peso and lower shipments of MegaMex. On a dollar basis, sales increased almost 3% and 5%, respectively.

Consolidated gross margins in the quarter and year-to-date were 37.8% and 37.1%, which implied expansions of 2.8 and 1.5 percentage points when compared to 2022. This was mainly due to the pricing catch-up versus high input prices and a favorable sales mix, particularly at Impulse.

Consolidated SG&A was 25.8% of net sales in the quarter and 25% in the first half of the year.

For the quarter, consolidated EBIT and EBITDA increased 36.2% and 27.7% with margin expansions of 190 and 160 basis points. On a cumulative basis, EBIT and EBITDA increased 30.5% and 24.9%, while the margin expansions were 120 and 90 basis points, respectively. These results are explained by the recovery seen in the margins of Preserves, as well as by lower operating losses in the Impulse segment.

During the quarter, income from unconsolidated companies was MXN 224 million, almost 5 times the results over the last year. This was mainly driven by the lower cost of avocado, price increases and a better sales mix in Don Miguel. For the first half, income from this segment tripled to MXN 520 million. Please be aware that we are comparing with a very low base.

Consolidated net income for the quarter was MXN 702 million, 78% higher than last year, while the margin expansion was up 290 basis points to 8%, benefiting from the recovery of MegaMex and a normalized income tax rate. For the first half, consolidated net income was 24.6% higher and amounted MXN 1.5 billion.

Our financial position remains strong. Cash totaled MXN 2.3 billion, and interest-bearing liabilities kept at MXN 10.5 billion. Our free cash flow for the quarter was MXN 8 million. As explained in the press release, in the quarter, working capital, and particularly inventories, demanded a significant amount of resources due to the slowdown in sales volume growth and inventory buildup for the second half of the year.

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

## **Gerardo Canavati Miguel:**

Thank you, Andrea.



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It looks like inflation has peaked and the down trend will continue for some time, even though the price level will remain elevated. In the next few months we will stop talking about inflation and focus more on demand creation.

Mexico growth estimates have been revised upwards, mainly due to the resiliency of domestic demand, and consequently, the combination of these two factors should support our view that the softness in the consumption environment seen in the second quarter will be temporary. Even in this environment, we are okay with the performance of our portfolio since our market share remained very solid and even we were able to gain some share in specific categories like mayo, canned vegetables, homestyle sauce and mole.

In the Impulse segment, the recent change in our pricing strategy for Nutrisa—like Thursday's two-for-one promo—had a positive effect on store traffic, resulting in the highest levels of foot traffic in the last three years. We expect this trend to continue throughout the rest of the year, closing the gap towards pre-pandemic levels. Additionally, the recently incorporated Chilim Balam business has very optimistic prospects for the segment.

MegaMex margins, as Andrea has mentioned, are in full recovery mode, driven by lower avocado cost, other pricing strategies. As well, actions in Don Miguel regarding the portfolio SKUs.

Having said all of the above, we reiterate our guidance for the full year as discussed in the last conference call; that is net sales are expected to grow in the mid teens for Preserves, in the low 20s for Impulse, and flattish for Exports. Gross margin should expand as follows: Preserves, 200-plus basis points higher; Impulse, an improvement of 250-plus basis points; and Exports, flattish. EBIT should grow in the high 20s, while EBITDA will increase in the low 20s range. Consolidated and majority net income are expected to grow 30% and 50%, respectively.

That concludes our prepared remarks and we are ready for your questions. Brenda, please go ahead.

3

**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](http://grupoherdez.com.mx) or follow us on: FB: /GrupoHerdezMX TW: @GrupoHerdezMX LI: /Grupo-Herdez

## FORWARD-LOOKING STATEMENTS

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