



GRUPO HERDEZ

FOURTH QUARTER 2024

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Gerardo Canavati Miguel, *Chief Financial & Information Officer*

Andrea Amozurrutia Casilla, *Director, Finance & Sustainability*

PRESENTATION

Operator

Good morning, everyone, and welcome to Grupo Herdez's Fourth Quarter and Full Year 2024 Earnings Conference Call.

This call is being recorded.

Information discussed may include forward-looking statements subject to risks and uncertainties. Please refer to the forward-looking statements disclaimer in our press release. If you require operator assistance, press star then zero.

I'll now turn the call over to Gerardo Canavati, Chief Financial and Information Officer.

Gerardo Canavati Miguel

Thank you, Drew.



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Good morning. The fourth quarter was challenged by high comps, economic uncertainties, and a soft consumption environment. Despite all that, we demonstrated resilience to tactical initiatives, cost management, efficient working capital, and a robust export activity.

We managed to achieve growth and gain market share in key categories, maintaining our strong market position, and delivering an unprecedented free cash flow.

With that, I'll now turn the call over to Andrea to discuss the highlights of the quarter and year. Andrea?

Andrea Amozurrutia

Thank you, Gerardo.

In the fourth quarter of 2024, net sales reached 9.9 billion pesos, up 0.9%. Growth was driven by the export segment.

Preserves faced a high comparison base, and the impact of avian flu on salted egg yolk shortages that forced us to limit orders in December. Impulse grew 2.8% due to ongoing increases in Retail, and exports achieved a strong 19.8% growth.

For the full year, net sales were a record of 37.4 billion pesos, up 3.3% versus last year. Gross margin was 40%, up 1.1 percentage points, due to higher volumes and lower soybean oil costs. Operating income grew 5.1% to 5.3 billion pesos, reaching 14.1% of operating margin. Net income was in line with the previous year at 3.3 billion pesos.

The recovery in the Retail business has been driven largely by innovations and license agreements, which have renewed the store's image and contributed to increased visits to Nutrisa and Moyo, which reflected sales increases of 7% and 10% respectively versus the previous year.

In the case of MegaMex, despite all the headwinds and the peak of avocado prices registered in July, recent performance has been encouraging.

Cash on hand at year-end was 3.3 billion pesos, up 1.3 billion. This allowed us for dividends of 487 million pesos and share buybacks of almost 400 million pesos. Interest-bearing liabilities remained at 9.5 billion pesos.



We achieved our first water reduction target milestone. Water consumption per ton produced in 2024 was 2.06, 1.9% below the target committed in the framework of our sustainability link bond issued in 2022. We are on track to further improve water efficiency and reach our target of 25% reduction by 2030.

As you also saw on January 29, when we published our guidance for 2025, we estimate solid top-line growth of between 6% and 8%, fueled by volume increases and only tactical price increases across the portfolio. Our focus will be on enhancing distribution and product innovation.

At the operating level, we estimate that EBIT and EBITDA margins will experience a slight pressure due to input costs, the depreciation of the Mexican peso, and expenses related to the implementation of the ERP, which Gerardo will update in a few minutes.

However, we expect double-digit growth in net income, driven by a continuous recovery in the input segment, lower cost of financing, and an important recovery in MegaMex. As well, if our shareholders approve, our 2024 strong free cash flow may translate into some extraordinary dividend distribution in 2025.

I will now turn the call over to Gerardo to discuss some other strategic initiatives, the status of the ERP, and CapEx projects for this year.



Gerardo Canavati Miguel

Thank you, Andrea.

The Mexican consumer landscape is soft due to seasonality from new governments. Fiscal stiffness, high personal debt, and reduced disposable income. Despite this, we expect to gain market share in key domestic categories.

Our Impulse segment is showing strong momentum. In Helados, the Nescafe stick launch, in convenience stores have gained significant traction, with high-value sticks now comprising over one-third of our portfolio and driving market share gains. In Retail, our supplement test is projected to increase sales by 7% in 2025 upon full rollout.

We are also debuting Chilim Balam's Mango Enchilado in Sam's Club, with more new products coming to club and supermarket channels.

Now, let's talk about the gorilla in the room, tariffs. Regarding potential tariffs on Mexican imports, we acknowledge the concern. If implemented as proposed, there would be a material impact on our U.S.

business. Eighty percent of avocados and guacamole products in the U.S. are from Mexico, the impact on pricing and demand would be significant. Salsa and Moyo would also lose competitiveness.

To mitigate this, we anticipate currency adjustments, price increases, and some absorption of costs. However, we believe the deep North America integration built over 30 years will prevail. Even with tariffs, Mexico remains the most profitable manufacturing location for most salsa products. We have secured some inventory, excluding guacamole, to allow time for a trade resolution.

On a more positive note, our Impulse segment is expected to grow over 20% in 2025. Among the initiatives that we expect to drive growth is the expansion of Nutrisa's commercials category within our stores. During 2024, we added more than 1,000 SKUs in sports nutrition, personal care, and supplements, which has generated sales increases of 100% in the few stores where it has been implemented. This year, we will expect this portfolio to all the stores, expecting a 40% increase in the Commercial category, and generate north of \$150 million in sales.

We expect an increase in CapEx for 2025 to 1.5 billion pesos to 1.8 billion pesos due to carryover projects such as the ERP, a new pasta line to increase capacity for Barilla, updates to our tomato puree production lines.

Additionally, we'll invest in warehouse automation equipment to improve efficiency, increase our export capacity to support international growth, and remodel stores and purchase freezers to enhance the customer experience.

That concludes our prepared remark. We're now happy to answer your questions.

Operator

We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Felipe Ucros with Scotiabank. Please go ahead.



Felipe Ucros

Good morning, Gerardo, Andrea, and team. Thanks for the space for questions. A few on my side. The first one on MegaMex. I'm just wondering if you can give us an update on Wholly and Don Miguel. On Wholly, we've had a few tough years after the pandemic, higher competition, lower growth, volatility, and input costs. But for the longer-term outlook for the category and for the business, how are you thinking about the dynamic? The same question for Don Miguel where you had some troubles in the past, but you've turned it around in recent times. Is it fully stabilized at this point? I guess, similarly, what can we expect for the long term of this one? Then I'll do my other question. Thanks.

Gerardo Canavati Miguel

Good morning, Felipe. Thank you for your question. In general terms, we are upbeat in MegaMex. What has happened is that the market dynamics have stabilized. We are revamping our branding. We are increasing our marketing investments across the board between Herdez and Wholly. We are getting some traction in terms of recovering some market share. I think that it's very difficult to see the improvements in one or two quarters, but the trend is very positive.

Wholly, the avocado price is very volatile. I think that we haven't since we bought the business that it has been this volatile. We're working on mitigating the cost effects through various initiatives. One would be, we are increasing our production in Colombia in order to have some mixes because the food in Colombia is extremely cheaper than in Mexico.

Second, we are working with our partners here in order to increase our supply near the production facilities in order to lower our freight costs. We're working on improving the supply chain, and we're working on mitigating the avocado cost particularly.

In terms of Don Miguel, I can proudly say that the business has turned around. We have seen unprecedented demand for our products, and now we have a more efficient plant. We did a few Management changes, and we feel very confident that the business is recovering its profitability.

In this quarter, and in the present quarter, we are seeing that Don Miguel efficiency is offsetting some avocado cost pressures. All the portfolio is performing good. We still have some challenges with our brands that are in the east and in the west, practically Chi-Chi's and La Victoria. That is a small part of the business. But overall, we feel very good about the trend in MegaMex.



Felipe Ucros

Great. That's a great color. Thanks a lot. Then on Impulse, the business used to have margins in the mid-teens as we go back to pre-COVID times. It's certainly been on a recovery path, but it's still a long ways from that old profitability. Where do you think profitability can go as you continue to recover?

Gerardo Canavati Miguel

Well, I think you had a very good point. We don't expect those margins. I think that in the best scenario, it would be low double digits. What we like about this business is that there's a lot of traction. I think that in the last three years, what we have done with the portfolio, with the execution, has been paramount in order to gain market share. I think now we have a portfolio to increase our share in the next five years. Obviously, and I'm talking about the labs, obviously, we need to invest. I think that the CapEx has been hampered because we needed to fix the portfolio first and the execution. Now, that we have that in place, I think we're going to see more CapEx going forward in order to increase our distribution and our points of sales.

In terms of Retail, I think that one of the game changers is transferring some branded products to other channels as we did with Sam's. I think that we're very excited to see in the future more products into supermarkets. We have a pipeline innovation, and that will increase the brand awareness, and that will increase the customer experience. What we are trying to do in the stores with our customer experience, then you're going to buy some products in other channels. I think that the prospects are very good. I think that there's some news to come with other markets in the near future.

Felipe Ucros

Fantastic. Thanks a lot. I'll get back in the queue and let others ask questions.

Gerardo Canavati Miguel

Thank you.

Operator

Once again, if you would like to ask a question, please press star then one.

The next question comes from Sara Maldonado with Santander. Please go ahead.



Sara Maldonado

Hi, everyone. Thank you for taking my question. As you said, the landscape environment is very soft. Can you give us more detail about maybe category and channels and what are you seeing in this part of the year? Thank you.

Gerardo Canavati Miguel

Hello, Sara. Can you please repeat the question because we didn't understand it quite.

Sara Maldonado

Yes, my question is about the landscape environment, consumer environment that you mentioned is very soft.

Gerardo Canavati Miguel

Yes, in general terms, I think that what we have seen in the last quarters is that we had a very strong environment in the first quarter of last year and then it started to soften because of obvious reasons. We have seen in the fourth quarter, very flattish across the board. When Andrea was mentioning about the Moyo situation, that was due to a shortage of egg yolk in December, the supply has stabilized, but we are still running in very, very low inventory.

Okay. When I think about the category and when we have high market penetration, that category that is the most important for our business was down. Taking out the egg yolk situation to the Moyo, we saw flattish category. Then we saw very soft categories in January, probably 2% or 3% lower, but we have seen a pickup in the last two weeks.

Okay. In general terms, I would say that the consumer environment is still flattish. Okay. That's where we are expecting to increase our market share. We are expecting to gain market share across the board in a flattish environment. I don't know if that answers your question.

Sara Maldonado

Yes. Thank you very much.



Operator

Once again, if you have a question, please press star then one.

We have a follow-up from Felipe Ucros from Scotiabank. Please go ahead.

Felipe Ucros

Thanks a lot, Operator.

Gerardo and Andrea, if I can do another one on Moyo exports. Pretty amazing performance since you started the expansion in the U.S. Just wondering if you can give us an update of the expectations for that project, right. I mean both the short-term and the long-term. In the short-term, obviously, avian flu may have some impacts. Just trying to understand how constrained you might be in the short-term. You just talked about the issues in Mexico. I imagine they're similar in the U.S., but wondering about that.

Then post avian flu impacts, once supply chains have normalized for Moyo, how do you expect the project to evolve in the long-term?

Gerardo Canavati Miguel

Right. We have done very good progress in distribution, basically clubs and supermarkets. What we have done is that Moyo is growing about two times the category. We are seeing some repeat rates very interested. Obviously, when you have a success in that dynamic markets, you attract a lot of competitors. What we're looking forward is that we're going to continue to increase in the mid-single-digit volume, but we are going to be more active in allowances in the point of sale. We're going to invest some money in order to continue with that traction. The constraint we have today is more about our twin packs that is selling in Costco. We're making some investments in order to increase that package.

I wouldn't expect double-digit growth. I think that a mid-single-digit growth going forward would be expected for that business. Obviously, we expect that the egg yolk situation or the avian flu will subsidize in probably two or three months. The situation is very serious because we have a supply shock because we have the avian flu, but we also have more demand. More demand for eggs, for protein is higher. That's what happened across the board. We need to work on in order to access more supply. We're working also with South America in order to subsidize those shortages.



Felipe Ucros

Very clear. Congrats on what you've done with that Moyo export bet. Thanks, guys.

Gerardo Canavati Miguel

Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Gerardo Canavati for any closing remarks.

Gerardo Canavati Miguel

Thank you for your participation. We're confident in our 2025 outlook. Thank you, Drew, for organizing this call, and have a nice day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.



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ABOUT GRUPO HERDEZ®

Proudly, we are the Mexican food company with the longest history in the country. Since 1914, we have brought the best of our gastronomy and the flavors of the world to Mexican families, and we have brought the best of the flavors of Mexico to the world. We have been listed on the Mexican Stock Exchange since 1991 and our purpose is to be a worthy representative of the recipes and ingredients of our cuisine on a global level, working committed to the social and environmental needs of the places where we operate. We are leaders in the processed food sector and an important player in the ice cream category in Mexico, in addition to having a solid presence in the United States through MegaMex, as leaders in the production and marketing of guacamole, as well as in the categories of sauces and frozen Mexican food, in the American Union. We have a broad portfolio of more than 1,500 products, with which we provide solutions to the daily lives of our consumers, by offering them variety and convenience for different lifestyles in the categories of tuna, spices, guacamole, ice cream, mayonnaise, jams, honey, mole, mustard, pasta, organic products, crushed tomatoes, homemade sauces, ketchup sauce, tea, canned vegetables and many more. These products are marketed through an exceptional portfolio of brands, including Aires de Campo®, Barilla®, Blasón®, Búfalo®, Cielito Querido Café®, Del Fuerte®, Doña María®, Embasa®, Frank's®, French's®, Helados Nestlé®, Herdez®, Libanius®, McCormick®, Moyo®, Nutrisa® and Yemina®. We align our sustainability strategy with 7 Sustainable Development Goals of the 2030 Agenda of the United Nations, being signatories of the Global Compact since 2012. This vision of contributing to the well-being of people, communities and the planet is shared with a great team of more than 12,000 employees, and executed through a solid infrastructure that includes 15 production plants, 29 distribution centers and around 574 points of sale of our brands Cielito Querido Café®, Chilim Balam®, Moyo® and Nutrisa®. For more information, visit <http://www.grupoherdez.com.mx> or follow us on: FB: /GrupoHerdezMX TW: @GrupoHerdezMX LI: /Grupo-Herdez IG: @grupoherdezmx

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