



# GRUPO HERDEZ

## FIRST QUARTER 2025

### CONFERENCE CALL TRANSCRIPT

#### CORPORATE PARTICIPANTS

**Gerardo Canavati Miguel**, *Chief Financial & Information Officer*

**Andrea Amozurrutia Casilla**, *Director, Finance & Sustainability*

#### PRESENTATION

**Operator**

Good afternoon, everyone, and welcome to Grupo Herdez's First Quarter 2025 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.

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

**Gerardo Canavati Miguel**

Thank you, Dorwin.

Good morning, everyone, and thank you for joining us today to discuss Grupo Herdez first quarter results.

We are once pleased with the progress we've made this quarter, demonstrating once again the resilience and strategy agility of our business in a very dynamic market. As you all are aware, the new world order is



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unpredictable. Planning for the future is a hard thing to do. For now, we hope that reason prevails, and we can maintain the favorable outcome for Mexico.

After a slow start, we gain traction towards the end of the quarter to deliver good results, which will be highlighted by Andrea. Please go ahead, Andrea.

## **Andrea Amozurrutia**

Thank you, Gerardo.

Despite widespread uncertainty, Grupo Herdez delivered outstanding results for the first three months of the year. The Company's strong performance was underpinned by innovative promotions and comprehensive commercial strategies that successfully boosted both volume and revenue. Key initiatives included the engaging McCormick Diablos Rojos sponsorship, the successful Alice in Wonderland tea licensing agreement, and the strategic launch of Frank's Barbecue at Costco, all boosting volume, revenue, and brand visibility.

Consolidated net sales grew 9.3%, reaching \$9.7 billion pesos. This growth was fueled by substantial increases in sales volumes across key categories, including mayo, vegetables, spices, mole, and tomato puree. Preserves demonstrated robust growth, with net sales of 10.3% to \$7.8 billion, driven by combined volume growth of the categories mentioned previously by 11%.

Impulse segment net sales grew by 4.7%, supported by strong multi-pack sales of Helados Nestlé and an increase in the average ticket in stores, primarily due to the introduction of a wider variety of consumer products.

Export sales rose by 7%, driven by higher export volume in salsas and vegetables.

Consolidated gross margin improved to 40.7%, an increase of 1.3 percentage points. This expansion was mostly driven by a favorable sales mix.

EBIT demonstrated strong growth in the first quarter, reaching \$1.5 billion, a 17% increase that drove the operating margin to 15%. This represents an additional \$213 million in operating profit, with notable margin expansion in Preserves and Exports. In contrast, the Impulse segment experienced a contraction in EBIT, reaching an operating loss of \$105 million pesos due to higher prices of cocoa and an unfavorable net sales mix.



At MegaMex, we experienced strong results in the quarter with net sales reaching \$4.4 billion pesos, a 25.2% year-over-year increase. In dollar terms, growth was 4.2%. This growth was largely driven by robust sales in Don Miguel and Wholly Guacamole. The Don Miguel business itself saw a strong performance, with net sales growing by 11.6%.

On the other hand, despite a competitive environment impacting salsas brands like La Victoria and Chi-Chi, the gross margin improved to 31.9%, up 2.4 percentage points, benefiting from favorable exchange rates and higher volumes that offset rising avocado costs. Consequently, EBIT and EBITDA margins both expanded by 3.1 percentage points to 10.9% and 12.9%. Net income increased to \$412 million pesos; 1.7 times higher than a year ago.

Strong operating results in the Preserves and Exports segments fueled a 20.1% increase in net income, which reached 1 billion. Majority net income increased 15.9% in the quarter, representing a 4.4% margin.

Regarding CapEx, as you saw in the press release, the net investments of the quarter totaled \$206 million pesos. Key projects during the quarter included the ongoing digital transformation and ERP implementation, the installation of the new pasta line that will be ready in February of next year, the acquisition of freezers for the DSD channel of Helados Nestlé, and the continued rollout of store remodeling for Nutrisa.

The first quarter saw a free cash flow of \$557 million, which represented 5.7% of net sales. Although healthy cash generation, the free cash flow was impacted by the higher than expected sales volume, which led to a significant increase in accounts receivable.

Having said that, we want to reiterate our guidance for the year with consolidated top line growth in the high single digits and EBIT and EBITDA margins to remain stable versus 2024.

I will now turn the call over to Gerardo to further discuss the sales dynamics since during the quarter, as well as the key topics addressed yesterday at the Annual Shareholders' Meeting.

### **Gerardo Canavati Miguel**

Thank you, Andrea.

Complementing the results Andrea just presented, I want to highlight our continued focus on strengthening our value proposition through new business initiatives and a commitment to innovation across our portfolio. These efforts are crucial in driving sustainable growth and reinforcing our position as a leading player in the



Mexican market. A prime example of this is the successful launch of Manguitos Chamoy in Sam's Club. In just eight weeks, this new product has achieved an impressive sell-through rate of 76% across 137 clubs.

Within our McCormick business, innovation in packaging and accessibility improving to be a significant growth driver. The new resealable sachet presentation for our spices and herbs line has significantly contributed to the brand's growth. Together with promotional point-of-sale strategies resulted in volume growth of almost 4% for the category.

Helados Nestlé has proven to be a beacon for innovation. Together with Nestlé Nescafé Stick's, our dual nut and brownie ice cream has become a key product in the Preserves segments and a significant contributor to both the category and segment's strong growth. Similarly, our multi-pack has been highly effective in expanding our presence, particularly in clubs, where these initiatives accounted for a substantial portion of a significant volume growth we experienced in the ice cream category during the first quarter.

Now, I would like to turn to the key issues addressed yesterday in our Annual Shareholders Meeting. On one hand, shareholders approved an ordinary dividend of 1.5 pesos per share to be paid in two installments, May and October, as well as a payment of an extraordinary dividend of 1 peso per share. Shares in the treasury, which amount to 8 million, will be canceled and the share buyback will be maintained at \$2.5 billion pesos.

On the other hand, shareholders also authorized the Board of Directors to distribute all shares of Grupo Nutrisa, which operates the Nutrisa, Moyo, Cielito Querido Café and Chilim Balam brands to group other shareholders as a dividend in kind. This transaction, subject to regulatory approval, will result in Grupo Nutrisa becoming an independently listed company on the Mexican Stock Exchange.

We firmly believe that this separation will generate significant value for both companies and their shareholders. By allowing Grupo Herdez and Grupo Nutrisa to operate as independent entities, each will be able to focus its strategy, resources, and management on a specific sector. Grupo Herdez will continue to strengthen its leadership in Preserves, while Grupo Nutrisa will pursue growth in the retail and input segment, leveraging its strong presence in shopping centers and its innovative product offering.

This process will provide greater focus on specific needs, operational autonomy, and financial flexibility for both companies. It will enable each management team to tailor its approach to the unique opportunities and challenges of the respective market, ultimately enhancing competitiveness and unlocking new growth avenues for shareholders. We are excited about the future of both Grupo Herdez and Grupo Nutrisa, and we are committed to executing this transition as efficiently and transparently as possible. We will continue to keep you informed as we move forward with this process.



Having said that, we can now turn the call over to your questions. Dorwin?

**Operator**

Certainly. Thank you. 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 are 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.

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

**Felipe Ucros**

Thanks, Operator, and good morning. Gerardo, Andrea, and team, thanks for the space, and congrats on the announcement. My first question comes around the spinoff. I'm wondering what's the main rationale to go through the spinoff? Because obviously there's positives and there's negatives that you probably weighed internally when thinking about this. There's an obvious one, which is unlocking value. There's another one, which is different businesses require different levels of attention, CapEx, specialization of teams. I'm wondering if it was more of an operational decision or a finance decision to unlock value. Then how you weigh that against the liquidity considerations for the shares, which will obviously be divided or something close to that. Then maybe I'll ask a couple of follow-ups on the operational side, but hoping we can start with the spinoff.

**Gerardo Canavati Miguel**

Good morning, Felipe. I think that you answered your first question perfectly. Talking about the second one, about the liquidity, I think that's a concern in the overall market. I think that we will, as an independent company, will pursue to have some liquidity. I guess that there will be some options going forward to increase that. But I think that you answered the rationale question perfectly.

**Felipe Ucros**

I probably didn't ask it correctly, but was it more operational or was it more financial? Meaning, was it more about the internal needs of the Company, or was it more about trying to pursue the higher multiple of one of the businesses? Perhaps it was equal.



## Gerardo Canavati Miguel

I think it's both. I think that we can control the focus of the operational one, and we believe that the value would be determined by other forces rather than us.

## Felipe Ucros

Very clear. Thanks for that. Then two other questions. The first one is on Preserves on the operational side. For Preserves, you posted a pretty amazing result. Volumes were up in the mid-single digits for the Company as a whole. When you look at what food and beverage companies have been reporting throughout the quarter, almost without an exception, volumes have been in negative territory. It seems that there's something special going on in Herdez. I don't know if it has to do with having easier comps or if it has to do with the promotional changes that you guys were mentioning in the call. Just wondering how you managed to decouple so far from the rest of the market. It's very rare to see one of the public companies outperforming the rest by so much.

## Gerardo Canavati Miguel

I think there's different factors, Felipe. One would be—we have a seasonality effect that makes comps not apples to apples due to length. That's one. Second, we did see negative environment starting the quarter, but we ended in a very strong note, particularly in March. The third one, you can recall that in the fourth quarter, we limited some availability in mayo because of the egg shortages, and that just got regularized or online on the first quarter. That also has a big component of the performance in volume.

## Felipe Ucros

Okay, very clear. Then if I can follow up on MegaMex, pretty amazing results.

## Gerardo Canavati Miguel

Before you go to MegaMex, there was also some comps between channels. I think that last year we saw wholesalers in a very low note. Channel-wise, wholesalers outperformed retail, modern trade, modern store supermarkets in this quarter.



## Felipe Ucros

Very interesting. I hadn't noted that in the reports from other companies or anything else. Pretty interesting. On MegaMex, where I was going with this, when we talked about it last quarter and you discussed the changes that had been done at Wholly, at Don Miguel, and how we should see a recovery throughout the year, probably one or two quarters out. Seems like you're probably moving ahead of that expectation. Pretty great results. Just wondering if you can give us more color about what worked in the quarter versus your expectation of maybe just taking two quarters more or something like that before we could see the results of the changes.

## Gerardo Canavati Miguel

I think we're seeing the result of the changes because we've been talking of Don Miguel for a while, for the last 12 months, and we made a lot of changes, including management and the teams and the focus, and we've seen that moving forward. I think that despite the high avocado prices, that it seems that this is going to be a new environment for us. Volumes have moved in the right direction, even though the consumption is very soft, but the dynamics in our category are moving good.

There's also other things about launching new products like the Herdez's Chunky Salsa that is particularly focused on the East Coast. We have increased the distribution on that, and that is an initiative to gain market share in the East. Obviously, on top of this, there's a big change. We have a new CEO that comes from inside, and that is also an element that brings some different dynamics to the business. We're very excited what's going on in MegaMex for the future.

## Felipe Ucros

Great news. Congrats on those changes, and I'll yield back for questions from the rest. Thank you.

## Operator

Thank you. Again, if you have a question, you may please press star, then one.

Our next question comes from Alvaro Garcia with BTG. Please go ahead.

## Alvaro Garcia

Hi, Gerardo. Hi, Andrea. I have a couple of questions on Nutrisa. Can you hear me? Hello?



**Gerardo Canavati Miguel**

Yes.

**Andrea Amozurrutia**

Yes.

**Alvaro Garcia**

Great. A couple of questions on Nutrisa. One, you've historically kept leverage at the Grupo Herdez level, and I'm not sure if this might be within the document you sent on the transaction itself, but I was just curious of the degree of debt and cash that will be transferred to Nutrisa as part of this transaction. That's my first question.

**Gerardo Canavati Miguel**

In the information we send, there's a pro forma financial statements, and there's no transfer of cash or debt. It's a debt-free transaction.

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**Alvaro Garcia**

All of the debt at the Grupo Herdez level today that we see at the Herdez level will stay at the Grupo Herdez level, and none will be transferred over to Nutrisa?

**Gerardo Canavati Miguel**

Correct.

**Alvaro Garcia**

Okay. Then just on—my understanding is that the potential liability from the Mexican Tax Authority investigation on VAT at Nutrisa has always been at the Nutrisa company level?





**Gerardo Canavati Miguel**

Yes.

**Alvaro Garcia**

Never been at the Grupo Herdez level? I just wanted to confirm that.

**Gerardo Canavati Miguel**

Yes, that is confirmed. It's under the Nutrisa, and we mentioned in the folleto that we have presented all our instances has been in favor, but we're still waiting on some, I don't know how to call it, some resolutions in court. That is all public available information, and in some cases there's some sentences that are open to the public in the courts. I think all the information is public right now.

**Alvaro Garcia**

Okay. But it's fair to assume that that, let's say, potential liability, Grupo Herdez will no longer see a risk from that. If it's fully transferred, let's say, or fully taken on by Nutrisa?

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**Gerardo Canavati Miguel**

In any case, yes.

**Alvaro Garcia**

Okay. Then just as far as timing, I don't know what you can share as far as timing for when the actual dividend takes place.

**Gerardo Canavati Miguel**

We are working to do it this year. We're going to depend on the authorities and regulatory, but the plan is it's going to be this year.



**Alvaro Garcia**

Great. Just one last one, sorry for all the questions. On a pro forma basis, ex-Nutrisa, obviously Nutrisa was a relatively capital-intensive business, what's the optimal capital structure for Grupo Herdez ex-Nutrisa? From a leverage standpoint, what's your target leverage post-Nutrisa? Thank you.

**Gerardo Canavati Miguel**

I think that today our capital allocation is we are under levered practically, and I think that Nutrisa or no Nutrisa is not a difference in that capital allocation. I think that we have levered in the past to repurchase some shares, and I think that our structure right now is very flexible to pursue new businesses.

**Alvaro Garcia**

Great. Okay. I'll stop there. Thank you.

**Gerardo Canavati Miguel**

Thank you.

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**Operator**

Thank you. 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 very much for participating in this call. If you have any questions, don't hesitate to contact us. Have a nice day. Thank you Dorwin.

**Operator**

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



## CONTACTS

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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®, Flaveur®, 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 12,500 employees, and executed through a solid infrastructure that includes 16 production plants, 28 distribution centers and around 650 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: @grupoherdezmex

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