



GRUPO HERDEZ

FIRST QUARTER 2024

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Gerardo Canavati Miguel, *Chief Financial & Information Officer*

CONFERENCE PARTICIPANTS

Sara Maldonado, Santander

Felipe Ucros, Scotiabank

Martín Lara, Miranda Global Research

Rodolfo Ramos, Bradesco BBI

PRESENTATION

Operator:

Good morning, everyone, and welcome to the Grupo Herdez First Quarter 2024 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.

Now at this time, I would like to turn the call over to Mr. Gerardo Canavati, Chief Financial Officer. Please go ahead, sir.

Gerardo Canavati Miguel:

Thank you. Good morning. Welcome everybody.



We're going to change the format in this call. We're going to start instead of reviewing the quarter that we expected, you already read it, we're going to go directly to our forecast, prepared remarks and questions and answers.

As we anticipated, the top-line dynamics are transitioning to a flattish growth rate, as discussed last quarter in our guidance for the year, and no pricing actions are anticipated since we are finally witnessing a somewhat lower inflation pressure in commodities. We expect a stable outlook going forward. In the coming months, we will reinvest part of these benefits into the market to take advantage of stable unemployment and positive consumer environment in order to strengthen the power of our brands.

The other positive note of this quarter was free cash flow, which benefited from improvement in basically all the components of working capital. This is very important in spite of the CapEx that we have projected for the year, and which will be mainly allocated to a new production line for long pasta in Barilla, the acquisition of 4,000 freezers for Helados Nestle in the traditional channel, and the convenience channel, the refurbishment of Nutrisa stores, new ovens for Cielito Querido and new coffee makers, new lines for La Victoria and Herdez Salsa for the export market, the NEO project as called internally is the implementation of a new ERP. We are expecting to update our data centers, and invest in securing higher cybersecurity in the Company.

Despite a very strong first quarter, we reiterate our guidance for the year. Consolidated net sales are projected to increase in the low single digits. Preserves is expected to remain flattish. Import sales are forecasted to grow in the low to mid teens. Exports are anticipated to maintain its growth trends in the high teens. In terms of gross margin, Preserves would be flattish, impulse will be flattish and export will be in the low teens. Lastly, for majority net income is forecasted to increase in the high single digits due to the stabilization of MegaMex growth.

To conclude, I'd like to share the key outcomes of yesterday's Annual Shareholders Meeting. In the meeting, shareholders approved a 1.5 pesos dividend per share in two installments and the cancellation of 5 million shares. Additionally, the share buyback program was approved at 2.5 billion pesos. Shareholders also accepted the resignation of Anasofía Sánchez Juárez Cardoze as an independent member of the Company's Board of Directors, and appointed Angela Gómez Aiza as a new independent member.

Thank you for your attention and we're ready now to take your questions. Beau, please go ahead.

Operator

Thank you, Mr. Canavati. (Operator Instructions)

We'll go first this afternoon to Sara Maldonado of Santander.

Sara Maldonado

Hi. Congrats for the results. Thank you for taking my question. My question is about MegaMex. Maybe if you can explain the reason behind the (inaudible) in guacamole, and going forward what can we expect. You mentioned before the recovery but maybe understand more MegaMex.

Gerardo Canavati Miguel

Good morning, Sara. Thank you for your question. MegaMex has experienced a very challenging environment as all the CTTs in the United States. We have seen that after the inflation in the last two years volume were hit across the board. We have seen some stabilization in some categories so now the rates where volume is dropping is being diminished. So, we are expecting a flattish environment for the next six months.



In terms of our category, the only category that is suffering the most is guacamole. We have seen a lot of pressure in that category and we are investing in order to reverse that trend. That is the only category in our portfolio and is basically in retail, not foodservice. Only in retail we have seen this dynamic, this competitive dynamic for the last month.

In terms of salsa, we are seeing some good growth. In terms of Don Miguel, we have also seen some strong growth in the portfolio, and we are turning around in that business. So, we expect free cash flow for that brand.

Probably we will not meet last year's performance because of difficult comps but the trend is encouraging.

Sara Maldonado

Thank you very much. I know you're reiterating the guidance, but maybe with the margin expansion, I know we can expect maybe better volumes because of this reinvestment, or what would happen in the next quarters with the margins to be in the guidance?

Gerardo Canavati Miguel

It would be in line—between flattish and 50 basis points overall. In terms of Preserves, it's going to be 50 basis points higher. Yes, you can expect a recovery in volumes. This quarter was down. We are aiming to make our plan. Our plan was to be one single digit growth. We are putting some dollars behind the brand, despite that Felipe Ucros doesn't like the idea. But we plan to support our brands with the benefits in gross margin.

Sara Maldonado

Thank you very much.

Operator

Thank you. We go next now to Felipe Ucros at Scotiabank.

Felipe Ucros

Good morning, Gerardo and team. Congrats on the results again. Thanks for the shoutout there. Gerardo, I wanted to ask you particularly about the investment in the market. When I think of the statement that said that you were going to reinvest part of the benefits into the market, just wondering how you're kind of thinking about allocating that. Is it going to be more marketing investment? So, should it flow through maybe more advertising through SG&A, or are you thinking more about price reductions to entice the customer back into product categories that might be experiencing some pain?

Gerardo Canavati Miguel

That was a great introduction to Sara's question, Felipe, to yours. It's going to be a combination of both. We have seen, for example, particularly in this quarter, we have seen what we call cross channel activities where clubs and wholesalers are in a very dynamic environment. So, in order to be more competitive, we use temporary price reductions for that matter. On the other hand, if we want to increase household penetration in certain categories, then we're going to increase our advertising and promotion. It's going to be both, depending on the channel and depending on the brand and in the region. For example, we have seen a lot of pressure, competitive pressure in the north part of the country because we have gained market share significantly in the last six months. We are going to be more price sensitive in more activities in order to defend those market shares that were gained in the last quarter. Okay?



Both investments, either on the top-line or below the line, are considered in our forecast. It's not going to change that much.

Felipe Ucros

That's super clear. Very helpful. Maybe if I can do a follow up on impulse. Impulse margins have been recovering nicely ever since we went through the pandemic. As we think of the division well into the future, are mid teen levels still sustainable EBITDA margin that we could hold in our minds, or has that target moved through time?

Gerardo Canavati Miguel

No, I think we can keep in our minds the mid teens, but we have to also keep in our minds a lot of patience because we are reconstructing portfolios and we're reconstructing the business model. So, let me explain a little bit more on that.

When you think about impulse, we are experiencing a lot of competition. Not in our categories but there's some competition of share of wallet in the consumer environment. If we think, for example, at supplements, now you can find supplements across the board in a lot of channels, in supermarkets, in clubs, etc. So, we need to think about the portfolio that we are trying to sell. I'm talking about retail, obviously. We're investing and increasing our CapEx in order to remodel, refurbish the stores, is very important, bringing some fresh baked bread to Cielito Querido is very important, changing the menus, increasing salads offerings, increasing empanadas offerings, etc. What we are working on is in the portfolio and refurbishing the stores, and that will help us get on track with more traffic in order to get to that multiple. I wouldn't expect that—not that multiple, that margin. I wouldn't expect that margin this year. Obviously, this year we're going to be in the low double-digits in this quarter, but we're working on that.

In terms of Helados Nestle, we have a lot of traction in the last two quarters. We have invested in changing the portfolio. Now we have a very good portfolio in terms of profitability. We have segmented the channels. We are increasing market share in modern (phon) channel, and also we have invested in great operating discipline. So, I think we're going to capitalize in this year in Helados Nestle.

Felipe Ucros

That's very clear. Thanks, Gerardo. Now that you mention Helados Nestle, I know at some point you explored the possibility of switching that into Preserves and kind of realigning the segments. Is that something that you still think about, or do you foresee that thing in impulse?

Gerardo Canavati Miguel

Switching that to Preserves?

Felipe Ucros

Yes.

Gerardo Canavati Miguel

I'm not following you, Felipe.

Felipe Ucros

I think at some point you thought about redistributing the segments a little bit so that impulse would be more focused on retail stores, kind of like the coffee shops and the ice cream shops. But I think it was something

you explored and maybe you put a pause on it. Just wondering if that's still something that the Company (multiple speakers)

Gerardo Canavati Miguel

What I can tell you is that that division, Helados Nestle, now is called frozen and refrigerated division inside our Company. Okay? So, what we are doing is increasing our capabilities to transform this business in multi temperatures. That gives us the ability to have other distributions inside and outside our Company. For example, all the portfolio of (inaudible) that is refrigerated. So now, we can create some synergies across our different businesses. We have the possibility to add some external distributions in order to maximize our distribution, our traditional distribution mom and pops that we've now nearly touched 80,000 points of sale.

So, probably that will answer a little bit more your question about preserves.

Felipe Ucros

That's very clear. Thanks a lot for the color.

Gerardo Canavati Miguel

Thank you, Felipe.

Operator

Thank you. We go next now to Martín Lara with Miranda Global Research.

Martín Lara

Hey, good morning. Thank you for the call. I have two questions. The first one is, where do you see the raw material costs going forward? The second one is what can we expect in terms of M&A activity?

Gerardo Canavati Miguel

Thank you, Martin. What we expect going forward in soft commodities, I think that the trends are very clear and very favorable. I think that despite this spike in energy prices over the last two weeks, energy was very stable and soft commodities, particularly soybean oil, is more a proxy for biofuels. So, together with good harvest in the U.S. and South America, the outlook for soft commodities is stable. We are not expecting it to continue to go down significantly but we think that they could be in a down range of current prices, plus or minus 10%.

Obviously, exchange rates have been very favorable also, and the rest of our commodities we have seen some challenges in fresh food and vegetables. I think that's a big challenge because that is very volatile depending on weather. That would be the answer for commodities.

Obviously, we have seen inflation in the service and in the labor part of our business. I think that's very clear for all the companies, and we try to offset that with more efficiencies across the board.

In terms of M&A, the only thing I can say is that we continue to explore opportunities, but our plate is empty for now. Okay?

Martín Lara

Okay. Thank you very much.



Operator

Thank you. (Operator Instructions)

We'll go next now to Rodolfo Ramos at Bradesco BBI.

Rodolfo Ramos

Thank you. Good afternoon, Gerardo. Thanks for taking my question. Just a couple. First one is more of a high level of Mexico's consumer, given the current juncture that we're in, the elections. Just surprised to see the flattish performance on the Preserves side during the quarter. Just wanted to get your take on the state of the Mexican consumer. That will be my first question. Then a second on some of the costs that you mentioned.

Gerardo Canavati Miguel

Hello, Rodolfo. We need to keep in mind that our sellout, our selling to our customers is not the same as the sellout of the market. So, for the first quarter, the market, our categories, major markets are up single digits, low single digits. Obviously, the difference between both is the inventory that our clients move. Particularly in the consumer environment, we see it very, I wouldn't say strong, but firm, is growing, and we have a lot of (inaudible) for that, particularly inflation is stabilizing, disposable income is increasing, salaries have doubled in the last four years. So, we think it's a very positive environment, and that should move to our selling. That's why our forecast is in the low single digits in terms of volume.

Rodolfo Ramos

Okay, thank you. A second one if I may. You mentioned during the previous question inflation in services, labor. Just wanted to get your sense on what the impact is of what you're seeing. With this new minimum wage, if you're seeing any impact at all. What could be the impact as well from a reduction in the work week which seems almost—like it's not going to be perhaps in this legislative period but it's probably something that it's just a matter of time before we're there.

Gerardo Canavati Miguel

Right. What I'm going to tell you is, on the second part of your question, is my opinion. Okay? The labor inflation is most (inaudible) or it affects us most in retail, because people is (phon) in that bracket. The higher inflation and labor has diminished our margins in retail. It's not only for us. It's for everybody in retail. We try to mitigate that with volume, with promotions, etc.

In terms of the week that—in Preserves, there's also an impact, but it's mostly just to adjust, not because they are in lower wages, because all the brackets are shrinking. So, we have to be ahead of the market.

Your second piece of the question, I think that when you reduce the shifts, it sounds very, very good, but from an operating standpoint, from a logistics standpoint of your work shift, it's very hard to do, because you have to cut your shifts and you have to leave production undone. So, we expect if this goes through, that we would be paying for extra hours in order to complete the shifts and not have these disruptions in making some batches.

I hope I explained myself.

Rodolfo Ramos

Yes, Gerardo. Thank you.



Operator

Thank you. Mr. Canavati, it appears we have no further questions today. I'd like to turn the conference back to you for any closing comments.

Gerardo Canavati Miguel

Thank you for your participation in the call today. We look forward to speaking with you again next quarter. Please do not hesitate to contact us in the interim. Thank you both.

Operator:

Thank you, Mr. Canavati. Ladies and gentlemen, that will conclude the Grupo Herdez first quarter 2024 earnings call. Again, we'd like to thank you all so much for joining us and wish you all a great remainder of your day. Good-bye.



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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 Impulse 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 products, 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 the 7 Sustainable Development Goals 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

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