



GRUPO HERDEZ

SECOND QUARTER 2024

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Gerardo Canavati Miguel, *Chief Financial & Information Officer*

Andrea Amozurrutia Casilla, *Director, Finance & Sustainability*

PRESENTATION

Operator:

Hello everyone, and welcome to Grupo Herdez Second 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.

At this time, I would like to turn the call over to Andrea Amozurrutia, Head of Finance and Sustainability. Please go ahead.

Andrea Amozurrutia Casillas:

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

During the quarter, we continued to witness our brand recognition among Mexican consumers. Our sales growth continued to be boosted by volume, as well as by well-executed demand creation strategies across the major categories. This combination has resulted in better-than-expected growth for the quarter.



Our overall sales grew by 6.2% compared to the previous quarter, driven primarily by outstanding performance in the ice cream and mayonnaise categories. In the case of ice cream, sales growth was not only benefited by unprecedented heat waves across the country, but also by an intended profitable sales mix in supermarkets, provoking top line to soar 36% year-on-year.

In the Retail segment, sales increase was driven by a combination of double-digit growth rates in the average ticket and traffic versus the second quarter of last year. Export's top line growth was primarily driven by the successful introduction of larger presentations of salsa in the U.S. market. This launch was well received by the foodservice channel, resulting in increased demand and higher sales volumes. Salsa accounted for around 30% of the incremental sales during the period, while mayo contributed 22%. These two categories continued to play a key role in driving the Company's quarterly performance outside Mexico.

In line with our 40% gross margin expectation, the margin in the quarter came in at 40.4%. This expansion was driven by improvements in all segments, propelled by a favorable mixed cost rise and also from the decline in soft commodities among other inputs. As well, the exchange rate during the quarter was 2.3% lower compared to the second quarter of last year, also favoring our gross margin performance.

Expenses during the quarter were higher than in the same period of last year due to freight costs and expenses related to the ERP implementation. EBIT margin expanded 1.6 and 1.5 percentage points in the Preserves and Export segments, respectively.

The Impulse segment saw a notable expansion of 4.7 percentage points, reaching a single-digit positive margin for the first time since the third quarter of 2019. The profitability improvement in the Impulse segment was driven by effective expense management and a strategic focus on products and channel profitability, particularly at Helados Nestlé.

On the Export front, we took advantage of near-shoring opportunities, leveraging our production capabilities in the Mexican territory by adding more exported portfolio items to our local production operations.

Regarding our income from unconsolidated companies, MegaMex continued to face challenges with avocado prices, which surged more than 20% during the period and are expected to rise further in the coming months.

Our EBITDA continued its double-digit growth since 2022, expanding almost 20% when compared to the same period of 2023. This increase led to an EBITDA margin expansion of 1.9 percentage points to 17.2%, as a result of the strong results across all segments.



In terms of our free cash flow, in anticipation of unfavorable conditions for the harvest of raw materials, we have decided to allocate capital to the construction of inventory. This decision, together with the annual payment of taxes, resulted in a negative free cash flow for the period.

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

Gerardo Canavati Miguel:

Thank you, Andrea. Despite all the challenges, the Mexican economy has shown remarkable strength, with growth exceeding expectations and a resilient labor market, which drove unemployment to a historic two-decade low of 2.6%. This, coupled with a sustained increase in disposable income driven by government social programs, has maintained a firm consumption environment. After the general elections, we expect this momentum to continue somewhat.

In light of the limited visibility going forward, risk management is hard. We have reduced our input cost variability for the foreseeable future by extending our hedging activities well into 2025, and proactively secured additional raw materials inventory, ensuring uninterrupted supply chains and consistent product availability for our valued consumers.

We are adamant about preserving the cultural heritage of Mexican cuisine while adapting to evolving consumer demands and market trends. To achieve this, we continue to differentiate ourselves through innovation, quality and branding. By leveraging the capabilities acquired with Interdeli and MegaMex, we will launch new products in the refrigerated space and strengthen our brands into 2025.

Talking about innovation, there is no better place than our Impulse segment. We believe it has turned the corner, and this momentum will continue into 2025.

Now, let's talk about MegaMex. Despite the EBIT volatility, consumption is improving in guacamole and in the shelf-stable categories as a whole. Food-away-from-home is improving also and we expect high single volume growth for the next quarters. Also, we have seen good trends in clubs and C-stores that will benefit Don Miguel.

MegaMex fundamentals are strong and are built under the following pillars: One, grow retail households; two, accelerate food-away-from-home; obtain supply chain efficiencies; expand gross margin at Don Miguel; and reduce avocado price volatility.

Regarding our digital transformation project, it aims to strengthen back office processes and operations within our shared services center with industry standards and the highest technology available in ERP, cloud technology and AI.

Regarding our guidance for the rest of the year, we anticipate mid single-digit sales growth based on low single-digit volume growth for Preserves, mid-teens growth in Impulse, and low 20s for Exports.

Speaking about EBIT and EBITDA margins, Preserves will have a difficult comp due to non-recurring expenses and higher investments in advertising and promotion. On the other hand, Impulse and Exports will see margin expansions.

We do expect to deploy our CapEx as planned and the MXN 1,200 million. Having said that, the full year guidance will be for consolidated sales in the mid single digits. Preserves is going to be in the low single digits, Impulse in the mid-teens, Exports in the low 20s. And margins, we expect consolidated in the low to mid-40s, Impulse in the low 60s, and Exports in the mid-teens. Majority net income will grow in the low to mid double digits. And, for MegaMex, we expect for the full year of 30% reductions versus 2024.

That will end my prepared remarks. We're open for your questions. Jim, go ahead.

Thank you for your participation in the call today. We look forward to speaking with you again next quarter, and please do not hesitate to contact us in the interim. Thank you, Jim. Have a nice day.

Operator:

Ladies and gentlemen, this does conclude today's Herdez Group conference call. You may now disconnect your lines and have a great 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 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

FORWARD-LOOKING STATEMENTS

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