



# GRUPO HERDEZ

## THIRD QUARTER 2022

### CONFERENCE CALL TRANSCRIPT

#### **CORPORATE PARTICIPANTS**

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

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#### **PRESENTATION**

**Operator:**

Good morning everyone, and welcome to Grupo Herdez's Third Quarter 2022 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 Mr. Guillermo Perez, Investor Relations Manager. Mr. Perez, please go ahead.

**Guillermo Perez Tinoco:**

Thank you, Charise. Good morning everyone. Thank you for joining us on today's call. We appreciate your interest in Grupo Herdez.

2022 has been a year full of unexpected and impactful events. We keep dealing with the lingering supply chain constraints, the highest levels of inflation in decades, and pressure on raw materials. Nevertheless, we remain focused on what is under our control, market execution, disciplined management of expenses and working capital.

Net sales increased 17.7% in the quarter and 22.2% year-to-date. Volume was responsible for one-fifth of the growth on a cumulative basis, although price increases are still the main driver of top line performance in quarterly and year-to-date numbers.

Results in the Preserves segment remain with a similar behavior as the consolidated figures increased 18.5% for the quarter and 21.1% year-to-date.

Volume in supermarkets, wholesalers and foodservice remained steady in the quarter and increases were driven by pricing actions in the last 12 months.

Impulse continued its sequential recovery due to the reopening and normalization in stores, as well as price increases, which translated into a high mid-single digit average ticket for the quarter. Similarly, the DSD channel at Helados Nestlé continued with the upward trend seen in the first half of the year.

In Exports, net sales increased just 8.4% in the quarter and 27.8% on a cumulative basis as demand softened somewhat. Homestyle salsa was the best performing category in the quarter.

Consolidated gross margin in the quarter was 33.9%, 130 basis points lower than in the third quarter of 2021. As input prices remained stubbornly high alongside other costs which are not comparable versus last year.

By segment, the margin was mainly impacted by 180 basis points decrease in Preserves, although Impulse registered a 170 basis point improvement.

Consolidated SG&A was 23.8% of net sales for the quarter and 24.6% for the first nine months of the year. This was 90 and 150 basis points lower, respectively, due to the operating leverage resulting from increased sales that completely offset higher freight expenses as well as other expenses.

With that backdrop, I will now turn the call over to Andrea to discuss profitability results as well as other company initiatives.

**Andrea Amozurrutia Casillas:**

Thank you Guillermo. Good morning everyone.

As you saw in our numbers, despite gross margin pressure consolidated EBIT and EBITDA increased 30.5% and 32.0% with margin expansions of 100 and 160 basis points, respectively. On a cumulative basis,



EBIT and EBITDA increased 34.0% and 30.5% with a margin expansion of 100 basis points each. This was mainly driven by operating leverage at the Preserves segment.

During the quarter, income from unconsolidated companies was MXN 92 million, 43% lower than in 2021, mainly due to the continued pressure on MegaMex results, caused by the cost of avocados and increased logistics.

Year-to-date, performance is similar with income from unconsolidated companies decreasing almost 57%, dragged down by the results that were 61% lower at MegaMex. Nevertheless, it is important to highlight that we have turned the corner, resulting from price strategies and lower COGS, which are reflected in a quarter-over-quarter recovery of 115%.

Consolidated net income for the quarter was MXN 469 million, 3.1% higher than the previous year.

The above resulted from lower results at MegaMex as well as higher income taxes due to higher proceeds coming from operations in the United States.

On a cumulative basis, the consolidated net income decreased 4.3% to MXN 1.3 billion with a 160 basis point margin contraction also explained by the gap on MegaMex performance when compared to last year.

Our financial position remains strong. Cash was MXN 5.1 billion and interest-bearing liabilities were at MXN 12.4 billion, same as those of the second quarter of the year. As a reminder, these amounts include MXN 1.8 billion of a bank loan that will be paid in November, so we expect the cash position to return to normalized levels by year-end.

In terms of our advancements on our sustainability strategy, this quarter Grupo Herdez signed “Pacto por la Comida”, an initiative for companies along food supply chains in Mexico to join forces to reduce food waste and losses by 50% in 2030. With this initiative, we will be contributing to one of the most important KPIs for our industry and the Sustainable Development Goal number 2, Zero Hunger.

Lastly, we are very glad to share that Grupo Herdez was recognized by MERCO, one of the most important corporate reputation monitors in Latin America, as one of the 100 companies with the Best Reputation in Mexico, going up four positions to hit the 13th place. In the food sector, we ranked third. Considering that this ranking takes into account practically all of our stakeholders, we feel honored to have these results and will continue to build communication strategies that strengthen our good relationship with all groups of interest and put up our good practices.

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

### **Gerardo Canavati Miguel:**

Thank you Andrea.

In the last weeks we have seen consumption soften a bit. This was completely expected as inflation roars across the board and should be sticky for the foreseeable future. Despite this environment, our performance was better than the market as we gained market share in half of the categories in our Preserves portfolio.

There is still work to do in Impulse, as by definition, the segment takes a back seat when disposable income takes a hit. Conversely, as Andrea mentioned, we have pivoted at MegaMex and now our attention will be to keep demand steady. On the other hand, early results of our Herdez UK launch are encouraging. We have conquered mid-single digit market share and have good traction to expand our distribution next year.



In the quarter, we saw good signs of working capital improvements. Half of our free cash flow came from these efforts and we expect more to come in the following quarters.

Maintenance CapEx for this year will be lower than guided, but we expect to execute small M&A that will fill the gap. Total CapEx for the year will end up around MXN 1.3 billion.

Lastly, as this year draws to an end, we reiterate our guidance except for net income. We expect Preserves and Impulse to grow in the high teens and mid 20s, respectively, so consolidated net sales will increase by 20%. Consolidated gross margin will still be 170 basis points lower for the full year, driven by Preserves. EBIT and EBITDA will grow in the low 20s, while the majority of net income will increase in the 10% neighborhood due to the MegaMex shortfall.

For 2023, we see flattish volume growth and expect income and expenses pressures to ease towards the back half of the year, translating into margin expansion. We will brief you when we have the forecast.

Thank you for your attention. We will now take your questions. Please go ahead.

**Gerardo Canavati Miguel:**

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

**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. We are currently present in 99% of Mexican households through our large portfolio of more than 1,380 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, Helados Nestlé®, Herdez, 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 United Nations 2030 Agenda. This vision is shared with an exceptional team of more than 10,000 employees, and it is implemented through the solid infrastructure of our 13 production plants, 24 distribution centers, and more than 600 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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