



GRUPO HERDEZ

THIRD QUARTER 2023

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Gerardo Canavati Miguel, *Chief Financial & Information Officer*

Andrea Amozurrutia Casilla, *Director, Finance & Sustainability*

CONFERENCE PARTICIPANTS

Álvaro García, BTG Pactual

PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez Third Quarter 2023 Earnings Conference Call.

Before we begin, I would like to remind you that this call is being recorded, and 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. Ms. Amozurrutia, please go ahead.

Andrea Amozurrutia Casillas:

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

As you saw in our earnings release, net sales increased by 13.3% for the quarter and 16% year-to-date. This growth is primarily driven by pricing actions taken over the past year, while our volume performance has surpassed the previously mentioned slowdowns, and is now stable and in line with our expectations.



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In the Preserve segment, we saw a 10.5% growth in the quarter. Categories like Vegetables, Mayo, Tomato Puree, Spices, Mole and Home-style Salsa performed exceptionally well. Supermarkets and price clubs maintained their leading position in channel performance. For the year, net sales increased by 16.8%, of which Mediterraneo contributed 2.2 percentage points to the segment's growth.

In the Impulse segment, the top line shows ongoing traffic recovery in stores, primarily driven by changes in the pricing strategy at Nutrisa. Cielito coffee shops experienced the most significant recovery during the quarter, while Helados Nestlé saw continues growth in DSD performance, with Mega as the top-performing product of the portfolio. Net sales for the quarter recorded an increase of 23% and 19% for the full year.

In exports, net sales for the quarter rose by 26.8%, primarily driven by the catch-up on sales that were delayed in the second quarter due to distribution challenges. Year-to-date, they increased by 4.4%. In dollar terms, net sales increased by 50% for the quarter and almost 19% for the full year.

Consolidated gross margins for the quarter expanded near to 7 percentage points, reaching 40.7%, making our highest-margin since the third quarter of 2019 before the disruptions caused by COVID-19 began. This growth was primarily driven by the Preserve segment, which finally experienced a relief in raw material prices. Year-to-date, our consolidated gross margin increased by 3.3 percentage points to 38.3%.

For the quarter, EBIT and EBITDA increased by 50.1% and 36.8%, with margin expansions of 3.5 and 3.1 percentage points respectively. On a cumulative basis, EBIT and EBITDA increased 37% and 29%, while the margin expansions were 2 and 1.6 percentage points. These results are attributed to the recovery of gross margin in the Preserve segment, and reduced operating losses in Impulse.

During the quarter, the income from unconsolidated companies reached MXN 139 million, a 50% increase compared to the previous year. This growth was primarily driven by lower avocado cost and the effects of normalized logistics. Over the past nine months, income from these segments reached MXN 658 million, which is 2.6x the income earned during the same period in 2022, where we had a very low base.

Consolidated net income for the quarter was MXN 830 million, a 76.8% increase compared to the previous year, with a margin expansion of 3.3 percentage points, reaching 9.2%. This improvement was driven by the recovery of MegaMex and gross margins. For the full year, consolidated net income rose by 75.4% to MXN 2.3 billion.

We maintain a solid financial position. We've accumulated MXN 3.5 billion in cash as part of our strategy to pay down debt of MXN 1 billion that matures next month. This debt is associated with our MXN 2 billion Herdez '13 bond. Our interest-bearing liabilities remain stable at MXN 10.5 billion, and in the quarter, we generated a free cash flow of MXN 1.8 billion.

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

Gerardo Canavati Miguel:

Thank you, Andrea.

Following Andrea's comment, our top line growth has normalized after a soft second quarter, and we are upbeat about future performance, in line with overall expectations. Mexico growth has recently been revised upward due to the resilience of private consumption, which can be attributed to a combination of factors including historical low unemployment and government policies that have increased disposable income.

With the disinflation process underway and the restrictive stance in monetary policies, we are tactically shifting our focus towards demand creation through market investments. We are very pleased with the performance of our portfolio as our market share held steady across the board, on the back of strong brand equity.



In the Impulse segment, Helados Nestlé continues to be the outlier, due to consistent great execution, operating discipline and an extraordinary product portfolio. MegaMex continues its recovery trend, primarily due to lower avocado prices, reduced freight expenses, and Don Miguel improved performance after an in-depth review of the Company's operation.

Finally, we want to raise our guidance for the full year, except for the top line growth, which will be in the low teens, against mid-teens. Gross margin should increase in Preserves 350 basis points, and Impulse 250 basis points, where Exports will be flat. EBIT should grow in the high 20s, while EBITDA will increase in the low 20s. Finally, consolidated and majority net income are expected to grow 40% and 70% respectively.

That concludes our prepared remarks, and we're ready for your questions. Brenda, please go ahead.

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, as leaders in guacamole production and marketing, as well as in the categories such as salsa and frozen 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, 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, Flavour, 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 7 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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