



# GRUPO HERDEZ

## THIRD QUARTER 2020

### CONFERENCE CALL TRANSCRIPT

#### CORPORATE PARTICIPANTS

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#### PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez's Third Quarter 2020 Results 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 it over to Mr. Gerardo Canavati, Chief Financial Officer. Please go ahead, sir.

### **Gerardo Canavati Miguel:**

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

Before we discuss quarterly results, I want to recognize all the people in Grupo Herdez that made it possible for our supply chain to continue working without suffering any downtimes. Thanks to their effort, commitment and hard work.

The third quarter brought contrasting results. On one hand, the Preserves segment continues to be benefited by the cook-at-home trend linked to the lockdowns, which we believe has staying power despite lower growth rates. On the other hand, the Frozen Division still had a weak performance, but with an improving trend.

Having said that, as usual, Andrea will walk you through the results for the quarter, and we will take your questions at the end. Andrea?

### **Andrea Amozurrutia Casillas:**

Thank you, Gerardo. Good morning, everyone.

Net sales increased 4.5% on the quarter and 7.4% over the first nine months of the year. In the quarter, one-third of the portfolio grew at double-digit rates. On the other hand, our Frozen and Retail business continued downhearted because of lower traffic in our stores, when compared to last year. However, in Helados Nestlé, sales continued to experience strong performance on the modern channel, growing at double-digit rates during the quarter.

In Exports, net sales increased 19.0% in the quarter and almost 30.0% on a cumulative basis, reaching a level of MXN 522 million and MXN 1.5 billion, respectively. These increases are explained by a stronger U.S. dollar and robust growth in home-style sauces and mole.

Consolidated gross margin in the quarter was 37.5%, 210 basis points below the third quarter of 2019. Despite higher efficiency derived from strong top line performance at Preserves, the margin was impacted by a MXN 60 million charge related to the implementation of the new labelling regulation, lower margins at the Retail business, and an unfavorable sales mix in Helados Nestlé.



In the Export front, consolidated gross margin increased 740 basis points, resulting from higher volumes and the exchange rate. On a cumulative basis, gross margin was 37.6%, 100 basis points lower than in 2019, due to the impact on our Frozen Division.

Consolidated SG&A in the quarter was 26.1% of net sales, 70 basis points lower than in the same period of 2019. SG&A in the Preserves segment decreased 4.6%, mainly due to higher absorption of fixed expenses and lower advertising and promotion expenses, while in Frozen, SG&A increased 13.6% resulting from the consolidation of Cielito. Over the first nine months of the year, SG&A represented 26.4% of net sales, practically flat when compared to 2019.

Consolidated EBIT decreased 13.4% in the quarter as a result of an MXN 224 million operating loss in Frozen, that fully offset the margin expansions in Preserves and Exports. For the first nine months of the year, EBIT remained practically unchanged.

EBITDA decreased 10.8% for the third quarter, while the margin decreased 260 basis points to 15.0%. On a cumulative basis, EBITDA increased 4.4%, representing 16.2% of net sales.

In the quarter, income from unconsolidated companies was MXN 145 million, almost 50.0% higher than in 2019, mainly due to lower avocado prices and the recovery of certain sales channels in the U.S. On a cumulative basis, this income was MXN 490 million, 8.0% lower than the last year affected still by Don Miguel and the impact of COVID-19 in food-away-from-home. Consolidated net income for the quarter was MXN 383 million, 16.8% lower than in the previous year, as a result of the operating loss of Frozen and higher interest paid, along with a one-time expense of MXN 48 million related to the unwind of an interest rate swap linked to the Herdez 17-2 bond prepaid in the quarter. In cumulative figures, consolidated net income was MXN 1.5 billion, in line with the previous year.

As you are all aware, in August, we issued MXN 3.5 billion in local bonds, which proceeds to prepay local bonds Herdez 17-2 and Herdez 18, as well as the committed credit lines used at the beginning of the pandemic. We issued MXN 2.5 billion on a fixed rate, achieving the best rate in our history, 7.78%, and MXN 1 billion on a float rate with terms of 10 and 5 years, respectively. As of today, gross debt remained at MXN 9.5 billion, while average maturity went up from 4 to 6.4 years.

Consolidated cash at the end of the quarter stood at MXN 3.7 billion, up MXN 195 million from last quarter, after buying back 6.5 million shares that represent MXN 254 million, and net Capex of MXN 64 million during the quarter. Leverage ratios remained strong and net debt to consolidated EBITDA was 1.7 times.

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



**Gerardo Canavati Miguel:**

Thank you, Andrea

The stay-at-home trend brought unprecedented growth to small categories, which have huge potential. Balancing our sales mix looks good at this stage. Carving out the divested tuna businesses and adjusting for the new labelling one-offs, Preserves gross margin expanded 180 basis points for the first nine months of the year.

On the other hand, having opened 95% of our shops, weekly performance has improved somewhat, but we do not expect to surpass 85 index versus 2019 in the next six months. Mom-and-pop sales are still very weak, thus we are doubling down on our omnichannel strategy, where sales of ice cream at modern trade has skyrocketed, gaining significant share in these channels.

For the fourth quarter, we expect a slight gross and EBIT margin expansion across the board. Through the year, top line growth will stay at the mid-single-digit rate, while consolidated EBIT and EBITDA should be flattish versus 2019. Finally, the steep losses in Frozen will undermine majority net income by a third. Even though guidance for 2021 is too early, we feel optimistic by our improved portfolio, innovation, the consumption environment, productivity changes at Frozen post-pandemic, and a strong balance sheet.

Lastly, we are proud to announce that the Global Compact Mexico picked Grupo Herdez as a study case for the successful integration of the sustainable development goals in our business model and was presented in the month of September.

That concludes our prepared remarks and we are open for your questions. Anastasia, 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.



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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 of flavors of Mexico to the rest of the globe. We have been listed on the Mexican Stock Exchange since 1991. Our mission is to be a worthy representative of the recipes and ingredients of our cuisine worldwide, working with a commitment to the social and environmental needs of the areas where we operate. We are leaders in the processed foods sector, and an important player in the ice cream category in Mexico. We also have a solid presence in the United States through Megamex, as leaders in the production and sale of guacamole, as well as in the categories of salsas and frozen Mexican food in the USA. 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 in the categories of tuna, spices, guacamole, ice cream, frozen yogurt, mayonnaise, marmalades, honey, mole, mustard, pastas, organic products, tomato puree, homemade salsas, ketchup, tea, canned vegetables, and much more, and in several of these categories we are the leader 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, Frank's, French's Helados Nestlé®, Herdez, McCormick, Moyo, Nutrisa and Yemina. We have created our sustainability strategy to align with seven of the United Nations' Sustainable Development Goals Agenda 2030; we have been a signatory to the Global Compact since 2012. This vision of supporting the well-being of our people, communities, and the planet is shared with a great team of more than 10,000 employees, and it is carried out through solid infrastructure that comprises 13 production plants, 25 distribution centers, and more than 600 points of sale of our brands: Cielito Querido Café, Lavazza, Moyo and Nutrisa. For more information, visit <http://www.grupoherdez.com.mx/>



## **FORWARD-LOOKING STATEMENTS**

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