



# GRUPO HERDEZ

## THIRD QUARTER CONFERENCE CALL TRANSCRIPT

### **CORPORATE PARTICIPANTS**

Gerardo Canavati Miguel, *Chief Financial Officer*

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### **PRESENTATION**

**Operator:**

Good morning, everyone, and welcome to Grupo Herdez Third Quarter 2021 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 the call over to Mr. Gerardo Canavati, Chief Financial and Information Officer. Please go ahead, sir.



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**Gerardo Canavati Miguel:**

Thank you, Ariel. Good morning, everyone. Thank you for joining us on today's call. I hope you and your families are doing well.

This quarter's results were full of contrasts between top and bottom line. Preserves' volume performance was solid. Impulse sequential recovery was on track and as anticipated, a significant gross margin reduction was experienced.

All this is in a most challenging environment with new regulations in place and unprecedented supply chain constraints.

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:**

Good morning, everyone.

Just as a reminder, 2021 numbers are not fully comparable for several reasons, such as: the divestment of the tuna business, the incorporation of the distribution of General Mills portfolios in April of this year, and the end of the distribution agreement with Ocean Spray at the end of 2020.

Having said that, organic net sales increased 15.1% in the quarter and 8.1% over the first nine months of the year. During the quarter, one third of the growth is attributable to volume increases, while the rest is explained by pricing.

Continuing last quarter's trend, Impulse remains tracking upwards as foot traffic to stores recovers. Additionally, Helados Nestlé sales experienced a strong performance throughout all channels, including the traditional one.

In exports, net sales remain practically flat in the quarter and 9.3% lower on a cumulative basis. These results are mainly explained by a weaker U.S. dollar.

Consolidated gross margin in the quarter was 35.2%, 230 basis points below the third quarter of 2020. This was mainly as a result of the 310 basis point impact on Preserves, mainly due to higher cost for soybean oil, among others, as well as a decrease of 850 basis points in the export segment as a result of the exchange rate too.



Consolidated SG&A in the quarter was 24.7% of net sales, 140 basis points lower than in the same period of last year. SG&A as a percentage of net sales in the Preserves segment decreased 20 basis points and 20.1 percentage points in Impulse as a result of expense absorption due to the recovery at the top line.

Consolidated EBIT before other income increased 7.6% in the quarter as a result of a 128 million recovery in the operating loss that the Impulse segment recorded last year, which more than offset a 3.7% decrease in Preserves.

In the quarter, we registered other expenses of MXN 60 million, mainly due to the VAT dispute and COVID-related.

Consolidated EBIT and EBITDA remained almost flat compared to last year at 655 million and 886 million, respectively, while the margins declined 150 and 190 basis points mainly due to gross margin pressure.

In the quarter, income from unconsolidated companies was MXN 162 million, 12.1% higher than in 2020 due to several factors: i) MegaMex recovery in the institutional channel, and ii) better performance of Don Miguel.

Consolidated net income for the quarter was MXN 455 million, 18.8% higher than in the previous year because of the results in the Impulse segment. Majority net income increased 143.5% during the quarter due to the results of Impulse.

Consolidated cash at the end of the quarter stood at MXN 3 billion, up MXN 300 million from the second quarter after buying back 2 million shares and net Capex of MXN 135 million.

Interest bearing liabilities remain at MXN 9.5 billion with an average life of 5.4 years and average cost of 7.46%.

Leverage ratios remain stable and net debt consolidated EBITDA was 1.9 times.

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

**Gerardo Canavati Miguel:**

Thank you, Andrea.

After our pricing actions, share of market remains stable. Wholesale channels are performing well versus supermarkets.



Regarding our stores, food traffic continues its upward trend from last quarter, but as we mentioned earlier, it is still off from 2019 levels. Traffic is more “destiny driven” instead of “wandering around”. Performance in DSD has improved significantly from second quarter, and we expect to start expanding distribution in the quarters to come.

Innovation and consumer engagement remains at the center of our strategies. Brands across the board are executing either virtual or on premise experiences with the launch of new flavors.

We are working closely with suppliers and partners to avoid any shortages in our supply chain. Input costs and expenses don't matter at this point, as getting the materials on time are.

We expect that both inflation and supply chain bottlenecks to ease in mid-2022. We also see some execution headwinds as new regulations enters into effect, particularly the “consignment note” that were entered in 2022 related to freights.

For this present quarter, we see top-line growth in the low double digits aided by Impulse, which is expected to grow more than two thirds. Gross margin expansion in the quarter will be in the 300 basis point neighborhood, and EBIT excluding extraordinary charges will be in line with last year's quarter.

This will bring the full year as follows: top line in Preserves to increase in the mid-single digits and inputs above 30%; consolidated gross margin of 50 basis points from 2020; and EBIT excluding one-offs flattish versus last year. At MegaMex, pretax income is expected to grow in the high teens on a currency-neutral basis.

Capex remains behind schedule, but we expect to complete between 600 million and 700 million on increasing capacity in pasta, sauces, vegetables, tomato puree and building the new line to manufacture RedHot Frank's & French's.

That concludes our prepared remarks. We are now open to your questions. Ariel, 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. Please do not hesitate to contact us in the interim. Have a nice 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 1,500 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, frozen 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 9,000 employees, and it is implemented through the solid infrastructure of our 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 [grupoherdez.com.mx](http://grupoherdez.com.mx) follow us on: FB: /GrupoHerdezMX TW: @GrupoHerdezMX LI: /Grupo-Herdez

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