



GRUPO HERDEZ

SECOND QUARTER 2022

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Gerardo Canavati Miguel, *Chief Financial & Information Officer*

Andrea Amozurrutia Casilla, *Director, Finance & Sustainability*

Guillermo Pérez Tinoco, *Manager, Investor Relations*

CONFERENCE PARTICIPANTS

Bernardo Malpica, *Compass Group*

Luis Yance, *Compass Group*

Álvaro García, *BTG Pactual*

Felipe Ucros, *Scotiabank*

PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez's Second 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.



GRUPO
HERDEZ

At this time, I would like to turn the call over to Mr. Gerardo Canavati, Chief Financial and Information Officer. Mr. Canavati, please go ahead.

Gerardo Canavati Miguel:

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

The expectation that 2022 would be a year of economic recovery after the COVID debacle has gradually faded as we are now facing the possibility of a global recession as central banks combat the worst inflation of the last 40 years.

We have been operating our businesses with extreme prudence, implementing pricing strategies, focusing on what is under our control, executing and securing working capital improvements.

With that brief backdrop, I will now turn the call over to Andrea to discuss the results. As usual, we will take your questions at the end. Andrea?

Andrea Amozurrutia Casillas:

Thank you, Gerardo. Good morning, everyone.

Net sales increased 27.4% in the quarter and 24.5% for the first half of the year. Volume was responsible for one third of the growth, though price increases are still the main driver of top line performance in the quarter. Preserves increased 25.4% and 22.6%, respectively, with similar behavior in the consolidated segment. Wholesale and supermarkets channels remained strong for the quarter, with a medium-high single-digit increase.

Impulse continued its sequential recovery due to ongoing improvement in foot traffic in stores and price increases, which translated into a higher average ticket. Similarly, the DSD channel in Helados Nestlé had outstanding performance, continuing the upward trend seen since the beginning of the year.

In exports, net sales increased 56.8% in the quarter and 39.4% for the first semester, driven mainly by volume, especially mayonnaise and homestyle salsas.

Consolidated gross margin in the quarter was 35.0%, 230 basis points lower than in the second quarter of last year as historically high input prices linger, alongside labor costs or labor reform costs, which are not



comparable versus last year. By segment, the margin was mainly impacted by a 260 basis point decrease in preserves, and this was partially offset by the recovery of 220 basis points in impulse.

Consolidated SG&A was 25.2% and 25.0% of net sales in the quarter and for the first half of the year, respectively. This was 190 basis points lower in both cases versus 2021, due to the operating leverage resulting from increased sales that completely offset higher freight expenses as well as labor reform impacts.

For the quarter, consolidated EBIT and EBITDA increased 44.2% and 36.6%, with a margin expansions of 120 and 100 basis points, respectively. Meanwhile, on a cumulative basis, EBIT and EBITDA increased 36.1% and 29.7%, with margin expansions of 90 and 60 basis points, respectively. This is the result of double-digit growth in Preserves and exports, which resulted from the price increases mentioned earlier, along with a recovery of the impulse segment.

In the quarter, income from unconsolidated companies was MXN 49 million, 71.7% lower than in 2021 mainly due to the continued pressure on MegaMex cost of avocado. For the first half, performance was similar, with income from unconsolidated companies decreasing 63.3%, dragged down by results that were 67.0% lower at MegaMex.

Consolidated net income for the quarter was MXN 395 million, in line with the previous year. This was impacted, as mentioned before, by lower results of MegaMex, as well as higher income taxes due to proceeds from operations in the United States in 2021. For the first half of the year, consolidated net income decreased 7.9% to MXN 859 million, with a margin contraction due to the aforementioned.

Our financial position remains strong: cash stood at MXN 4.8 billion and interest bearing liabilities were MXN 12.4 billion, which was MXN 2.4 billion higher than the first quarter of 2022. As a result of the issuance of a local bond of MXN 3 million this quarter, our first sustainability-linked and the first for a Mexican food company, we paid down MXN 500 million in short-term debt and we will repay in full our most expensive credit line of MXN 2 billion towards year-end. Net debt for the quarter was lower somewhat. With this bond, we are committing to reduce our water consumption per ton produced by 25.0% for 2030.

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

Gerardo Canavati Miguel:

Thank you, Andrea.



Despite the many headwinds in the world right now, consumption in Mexico has so far defied inflation for now. Although there are changes in consumer preferences, the market in general has remained solid in terms of volume and our market shares remain strong in the core categories of our portfolio.

Meanwhile, foot traffic, better mom and pop performance and operating leverage continue to drive the Impulse segment. We expect this dynamic to continue for the rest of the year. As we have mentioned in different forums, traffic in our stores remain below 2019 levels, which is why we have been working on building a robust e-commerce channel for Nutrisa and a monthly coffee membership for Cielito consumers. We expect the digital channel to reach 5% of the segment sales in the near future.

Conversely, MegaMex continues to be negatively impacted by the skyrocketing prices of avocado and freight during the quarter. While we anticipate a recovery in the fourth quarter of this year, there is no way to recover the losses of the first half.

This quarter we began a new commercial relationship in the U.K. with our partner McCormick & Company. Herdez sauces and authentic Mexican meal kits were placed in 500 Tesco stores, which is the largest self-service chain in the U.K. and practically in Europe. We are very excited with this partnership between Herdez and McCormick, which will bring the tastes and culture of Mexico to the world.

I would like to share our thoughts about inflation in our industry. CPGs around the world increased prices while gross margins declined. This clearly means that we are all behind the curve, as well as our suppliers. We believe we are in the last innings of high inflation in terms of rate of change. Recent corrections in commodity prices should hit the system in the next 12 months, helping to restore gross margins to the high 30s and releasing cash from working capital.

The fundamentals of the edible oil markets have changed dramatically in the last few years and we need to embrace that fact. Edible oils, particularly soybean oil, is used as a feedstock for renewable diesel. Close to half of the U.S. soybean oil production goes to energy. We are competing for these resources with the big oil companies of the world. To give you more context, if all the U.S. soybean oil production was used for biofuels, it would only account for less than 10% of the U.S. diesel market.

So, consumers around the world are paying for the flawed clean energy policies of the U.S., or the government limits the use of food for fuel, or innovation brings non-edible oil for this particular use. In the meantime, we all pay higher prices for our inputs.

Lastly, we now see achieving the upper limit of our guidance for top line and EBIT, except for net income. We expect Preserves sales to grow in the high-teens, Impulse in the low 30s, so consolidated net sales will



grow around 20%. Gross margin will still be down for the full year. EBIT and EBITDA will grow in the low 20s, while majority net income will increase in the mid-teens due to MegaMex shortfall.

Thank you for your attention. We will now take your questions. Joe, please go ahead.

Gerardo Canavati Miguel:

Thank you, Joe. 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 nice day. Goodbye, Joe, and thank you.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

CONTACTS

invrel@herdez.com

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 or follow us on: FB: /GrupoHerdezMX TW: @GrupoHerdezMX LI: /Grupo-Herdez



FORWARD-LOOKING STATEMENTS

The information contained herein (the "Information") has been prepared by Grupo Herdez, S.A.B. de C.V., its associated companies, subsidiaries and/or affiliated companies ("Grupo Herdez"), and may contain forward-looking statements that reflect Grupo Herdez's current expectations and views, which may differ materially due to various factors, risks and uncertainties. Therefore, Grupo Herdez and/or its respective officers, employees, or agents, assume no responsibility or liability for any discrepancy in the Information. In particular, but without prejudice to the foregoing, no warranty is given as to the accuracy of the statements or future variations of the Information, or any other written or oral Information issued by Grupo Herdez. The Information has been provided solely for informational purposes. The issuance of this Information shall not be taken as any form of commitment on the part of Grupo Herdez to proceed with any transaction.

