



GRUPO HERDEZ

FOURTH QUARTER AND FULL YEAR 2022

CONFERENCE CALL TRANSCRIPT

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PRESENTATION

Operator:

Good morning, everyone, and welcome to Grupo Herdez Fourth Quarter and Annual 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 subjects to risks and uncertainties, and the actual results may differ materially. Please refer to the detailed note in the Company's press release regarding forward-looking statements.



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At this time, I would like to turn the call over to Mr. Guillermo Perez, Investor Relations Manager. Mr. Perez, please go ahead.

Guillermo Pérez Tinoco:

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

In year 2022, the food industry faced challenging market conditions. We dealt with significant cost pressures coming from higher raw materials and packaging costs, in addition to the high interest rates caused by global inflation and the measures taken by central banks to address it. However, the Company registered sound performance due to its market leadership and financial discipline.

Net sales increased 18.5% in the quarter and 21.0% for the full year. Although price increases continue to be the main driver of top line performance in quarterly and full year numbers, volume contributed with one fifth of the growth on a cumulative basis. Results in the Preserves segment are similar, with the consolidated figures increasing 20.1% in the quarter and 20.8% at year-end. The quarter saw little change in volume at supermarkets, wholesalers and foodservice, with increase brought on by price changes.

Impulse sales was sluggish and increased 6.6% in the quarter due to lower store traffic, while for the full year sales grew 19.7% as a result of price increases, store reopening's and general store normalization. This resulted in a mid-single digit gain in average ticket for the entire year. Likewise, the DSD channel at Helados Nestlé maintained the upward trend seen in the first nine months of the year.

As a reminder, Helados Nestlé strategy has evolved as the focus remains on DSD. This change is a result of sluggish Modern channel as the stay-at-home trend vanishes. We have been developing and diversifying the portfolio and as a result, in the last twelve months, DSD has stood out from the rest.

In exports, net sales increased 19.0% in the quarter and 25.3% for 2022. Home-style salsa and mole were the best performing categories in the quarter and for the full year.

Consolidated gross margin in the quarter was 36.5%, 110 basis points lower than in the fourth quarter of 2021, as input prices remain high on a comparable basis alongside incremental labor costs derived from legislation reforms. By segment, Preserves registered a 90-basis point decline on the margin. However, compared to the third quarter of 2022, consolidated gross margin improved by 260 basis points and 410 for Preserves.

Consolidated SG&A was 21.4% of net sales for the quarter and 23.7% for the full year. This was 130 and 140 basis points lower than last year, respectively, due to the operating leverage resulting from increased sales that completely offset higher freight expenses as well as other expense.

With that, I will turn the call over to Andrea.

Andrea Amozurrutia Casillas:

Thank you, Guillermo. Good morning, everyone.

During the last quarter of 2022, we outperformed the market in terms of volume as we increased our market share in supermarkets and wholesalers in half of the categories of our Preserves portfolio. As Guillermo mentioned, gross margin was also a positive note. As seen in the report, the fourth quarter was the inflection point of gross margin performance since on a sequential basis, margins have started to improve.



Income from unconsolidated companies was MXN 221 million in the quarter in line with the previous year. However, on a cumulative basis, it was 42% lower than in the previous year, dragged down mainly by higher avocado prices for MegaMex. Going forward, we expect MegaMex results to continue the trend of the last quarter as a result of more normalized prices of avocado along with the pricing actions taken in the past months.

Consolidated net income for the quarter was MXN 938 million, a 35.9% increase over the same period of the previous year. The above resulted from normalized MegaMex performance and lower income taxes from the operation in the U.S. Full year consolidated net income increased 9.0% to MXN 2.3 billion with a margin contraction of 70 basis points explained by the aforementioned gap in MegaMex performance compared to last year.

Our financial position remained strong. Cash amounted to MXN 2.4 billion at year-end despite share buybacks of MXN 421 million and MXN 587 million used for the acquisition of Mediterranean in the fourth quarter. The above resulted mainly from improvements in working capital, particularly accounts receivables and payables. Free cash flow for the quarter and full year were very, very strong as we generated MXN 1.1 billion and MXN 2.6 billion more than in 2021.

Finally, we would like to reinforce our guidance for 2023 announced last month.

Preserves and Impulse are expected to grow in the high teens and mid-20s, respectively. Thus, consolidated net sales should increase in the high teens. Consolidated gross margins should continue to improve quarter-over-quarter, thus EBIT and EBITDA will grow in the low to mid-20s, while majority net income will increase in the high 40s percent range, mainly as a result of MegaMex 's recovery.

Maintenance Capex will be around MXN 900 million for the year.

Free cash flow will continue to benefit from working capital improvement initiatives that should contribute to our reduction of our debt levels at year-end in the range of MXN 500 million to MXN 1 billion.

With that, I will now turn the call back to Ariel so we can take your questions.

Andrea Amozurrutia Casillas:

Thank you all for joining us today in today's call. We look forward to see you in the next quarter, and please do not hesitate to contact us in the interim in case you have questions. 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 1,500 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, 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 10,500 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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