



GRUPO HERDEZ

THIRD QUARTER 2024

CONFERENCE CALL TRANSCRIPT

CORPORATE PARTICIPANTS

Gerardo Canavati Miguel, *Chief Financial & Information Officer*

Andrea Amozurrutia Casilla, *Director, Finance & Sustainability*

PRESENTATION

Operator:

Good morning, everyone, and welcome to the Grupo Herdez Third Quarter 2024 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.

If you require Operator assistance, please press star, then zero.

At this time, I would like to turn the conference over to Andrea Amozurrutia, Head of Finance and Sustainability. Ms. Amozurrutia, please go ahead.

Andrea Amozurrutia Casillas:

Thank you, Drew.

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



As we anticipated in our previous conference call, our third quarter figures were challenged by difficult comps in Preserves. We saw continued momentum in our Exports segment, but faced unexpected weather related disruptions in Impulse and disappointing performance in MegaMex.

Starting with the good news, our Exports segment truly shone this quarter, driven by the strong performance of mayonnaise in supermarkets and expansion into new club in regions like the Bay area and South California. We saw a 24.1% increase in dollar sales. This growth was further fueled by a favorable exchange rate and the successful introduction of our two pound jug salsa in the U.S. market, which contributed significantly to our sales volume increase.

On the domestic front, it was a more challenging quarter. Severe weather events, including hurricanes and flooding, significantly impacted our Impulse segment, particularly Helados Nestlé. We estimate these disruptions led to roughly \$40 million in lost sales. However, it wasn't all bad news. Our retail business within the Impulse segment demonstrated resilience, growing close to 7% and continuing its recovery trend. This is thanks to several initiatives we implemented across our brands, such as the flavor innovation with the Hello Kitty license, which was a real hit among consumers.

Turning to margins. Our gross margins came in at a healthy 40.5%, supported by a favorable sales mix and operational efficiencies. However, the weather related disruptions and increased commercial investments did put some pressure on our EBIT. The Exports segment, on the other hand, delivered a strong margin expansion, achieving its best margins since the fourth quarter of 2020.

Now, turning to the not so great results in the quarter. The performance of MegaMex continued to be very challenging. As you saw in our report, income from unconsolidated affiliates, was significantly lower than last year, primarily due to challenges at Avomex and Don Miguel. MegaMex is facing a tough environment with soaring avocado prices, increased competition from cheaper alternatives, and a shift in consumer preferences towards home cooking. This has put a squeeze on the margins. We are actively exploring options to stabilize the business' sensitivity to avocado price fluctuations, including diversifying our sourcing and investing in marketing to better understand and adapt to evolving consumer trends.

Despite the challenges, Don Miguel's cash flow is positive year-to-date due to our redesign in the manufacturing layout and favorable soft commodity inputs. This underperformance underscores the need for structural changes of MegaMex. Together with our partner, we've recently named an Interim CEO to ensure effective execution with a sense of urgency.



Looking ahead, we remain committed to investing in our growth and sustainability. Key projects include capacity expansion, equipment modernization and new store openings. Our strong free cash flow of \$603 million in the quarter allows us to continue this investment while maintaining a healthy financial position.

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

Gerardo Canavati Miguel:

Thank you, Andrea. Good morning, everyone.

Despite the headwinds from global geopolitical uncertainties, input costs pressures, the exchange rate volatility and a slowing economy, we have maintained our focus on delivering results. While third quarter results may not match our expectations, we continue to allocate resources towards operational efficiency, including IT and product innovation.

For the next 15 months, our CapEx allocation will be in four major projects: a new long pasta line, equipment update for tomato puree and mole, a new multiformat line for salsa production for exports and obviously ERP, among other smaller projects.

For the present quarter, we expect Impulse and Exports with the same momentum. We see sales at both segments growing in the low 20s, while Preserves should be flattish. Consolidated EBIT and EBITDA will also be flattish versus last year, having Impulse and Exports offsetting softer margins within Preserves. This fourth quarter expectation is in line with our full year forecast shared with you previously.

Lastly, due to the recent changes at MegaMex leadership, we will not provide a forecast for this business. I'd like to give you some perspective on what we expect going forward.

Doing business in Mexico has become expensive and complex on all fronts. Despite an overwhelming welcome to the higher disposable income in our country, implementing all the proposed labor reforms will be strenuous. These changes will impact our operating cost, require adjustments in workforce shifts, and demanding an already scarce resource labor.

Despite trying to mitigate these and other inflationary effects, 2025 looks very challenging. In a softer consumption environment, the ability to pass cost inflation will be hampered by share of market losses, while managing input and expenses costs. On the other hand, we have tactical and operational strategies that must continue, such as the Yemina expansion strategy, the logistics footprint, increasing our manufacturing capacity, and the implementation of our ERP, to name a few.



Having said that, we decisively will sacrifice our short-term performance for a stronger long term. We are confident in our strategy. The U.S. market is our priority as the Exports segment has evidently shown, and we believe that M&A opportunities on both sides of the border will arise in the near future, and we are prepared to seize them.

We will update our 2025 guidance in January.

We're now ready to take your questions. Drew, please go ahead.

Operator:

Thank you. We will now begin the question-and-answer. To ask a question, you may press star, then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Felipe Ucros with Scotiabank. Please go ahead.

Felipe Ucros:

Thanks, Operator. Good morning, Gerardo, Andrea and team. Thanks for the space. My first question for you guys are on the consumer in Mexico. Obviously, a lot of generalized reports from everyone in the segment saying that consumption has weakened in Mexico. But it's been kind of hard to pin down the cause. Obviously, weather was an issue, the constitutional reform, and the changes in government also generated uncertainty. There's elections in the U.S. There's a bunch of things and it's hard to pin down whether the slowdown is temporary or whether we should be thinking about more of a structural thing. I'm wondering if you have an opinion on what you think it is for the coming couple of years.

Then if I can add a question on Exports. Pretty amazing performance here. I think it's been more than a year since you started broadening out the presence in price clubs and introducing new products. But you're still growing at very high rates. How should we expect or how should we think about growth for the coming couple of years? Are you expecting more double-digit growth going forward? Or maybe another way of asking it is, do you have plans for more product lines, more regions, different retailers, or should we assume that you've—you will soon reach a plateau on Exports? Thank you.



Gerardo Canavati Miguel

Hi Felipe. Good morning. On the consumption environment, we saw deep deceleration in the first quarter, and that gap has closed recently. What we look forward is that regardless of what's all the things that you mentioned in your question, we believe that consumption in our sector is going to be between flattish and low single digit growth in volume. We see that all these initiatives are very strong for the disposable income. I think that those strategies in this administration will continue, and that will translate into more consumption, at least in our sector. We are not worried about that in terms of the consumption environment.

Regarding your second question, we're very excited about what's going on in the mayo categories. I think that our growth in this quarter would be higher if we had the capacity. We are hitting some capacity constraints that are going to be addressed with more capacity to satisfy the demand that we're seeing in the United States. We can expect to continue to grow probably in the single digit range in terms of volume.

For salsas, as I mentioned previously, we are increasing our CapEx, our investments, in order to produce more salsa formats, multipack, multiformats and for all the brands that we have in MegaMex. That will also drive exports when the line is ready in the next 12 months.



Felipe Ucros

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Okay, that's very clear. I'll join the queue for other questions, and I'll let my peers. Thanks.

Operator

Again, if you have a question, please press star, then one.

Seeing no further questions, I would like to turn the conference back over to Gerardo Canavati for any closing remarks.

Gerardo Canavati Miguel

Thank you for your participation in the call today. We look forward to speaking with you again next quarter. Please do not hesitate to contact us in the interim. Thank you, Drew. Have a nice day.

Operator

Thank you. The conference has now concluded. You may now disconnect your line.

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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, while taking the most delicious 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 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 categories such as salsa and Impulse 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 products, 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®, Flaveur®, Frank's®, French's®, Helados Nestlé®, Herdez®, Libanús®, 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 the 7 Sustainable Development Goals of the United Nations 2030 Agenda. This vision is shared with an exceptional team of more than 12,000 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 <http://www.grupoherdez.com.mx> or follow us on: FB: /GrupoHerdezMX TW: @GrupoHerdezMX LI: /Grupo-Herdez

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