



GRUPO LALA REPORTS THIRD QUARTER 2018 RESULTS

Mexico City, October 22, 2018 – Grupo LALA, S.A.B. de C.V., a Mexican Company focused on healthy and nutritious foods, (“LALA”) (BMV: LALA), today reported results for the third quarter 2018. The following information has been presented based on International Financial Reporting Standards (IFRS) and in nominal terms.

Quarter Highlights

- 📈 Net sales increased by 24.9%, to 18,758 million pesos, while in comparable figures sales increased 4.3%
- 📈 YoY reported and comparable EBITDA decreased 6.6% and 17.2%, respectively, due to inflation and one-offs
- 📈 Mexico sales increased by 4.7%, still tight on margins as pricing partially compensated pack and energy costs
- 📈 Brazil net sales increased by 10.3% in Reals, a reflection of strong growth potential
- 📈 Rightsizing US and CAM operations for profitable growth

The following chart provides an abridged Income Statement, in millions of pesos. The margin for each figure represents its ratio to net sales from the quarter ended September 30, 2018, as compared with the same period in 2017:

| As reported | | | As reported | | | Comparable ⁽¹⁾ | | |
|-----------------------|--------|---------|-------------|---------|---------|---------------------------|---------|---------|
| P&L | Q3'17 | % Sales | Q3'18 | % Sales | Var. % | Q3'18 | % Sales | Var. % |
| Net Sales | 15,022 | 100.0% | 18,758 | 100.0% | 24.9% | 15,663 | 100.0% | 4.3% |
| Gross Profit | 5,754 | 38.3% | 6,425 | 34.3% | 11.7% | 5,582 | 35.6% | (3.0)% |
| Operating Income | 1,427 | 9.5% | 1,157 | 6.2% | (18.9)% | 1,015 | 6.5% | (28.8)% |
| EBITDA ⁽²⁾ | 1,864 | 12.4% | 1,741 | 9.3% | (6.6)% | 1,543 | 9.9% | (17.2)% |
| Net Income | 1,007 | 6.7% | 216 | 1.2% | (78.5)% | 53 | 0.3% | (94.7)% |

(1) Comparable is defined as the year-over-year comparison excluding the effects of LALA's Q4 2017 acquisition of Vigor Alimentos in Brazil

(2) EBITDA is defined as operating income before depreciation and amortization

MESSAGE FROM MANAGEMENT

Mauricio Leyva, Grupo LALA's CEO, commented:

“During my first 45 days in Grupo LALA I have been able to recognize its potential across its regions, its core strengths and the different business opportunities that can enhance our performance. In the immediate future my focus will be in nurturing talent all across the company and driving LALA through a virtuous cycle of investing in growth and optimizing costs to expand margins. I see in Mexico strong business fundamentals with many execution opportunities. I'm convinced we have a great asset in Brazil with a team capable of winning in the biggest market of Latam. In US and Central America we are acting fast to put both regions in the path of profitability.

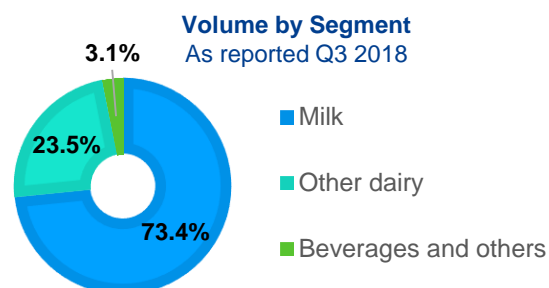
I am very excited of the promising future I foresee, for with the right motivation and talent we will be able to achieve our long-term business goals.”

CONSOLIDATED RESULTS FOR THE THIRD QUARTER 2018

Net Sales: Reported net sales in the third quarter 2018 increased by 24.9% year on year, reaching 18,758 million pesos, from a combination of organic growth and the consolidation of the operations in Brazil. Further, net sales in comparable figures increased by 4.3%, to reach 15,663 million pesos. This growth is a reflection of volume expansion and an improved mix in all regions.

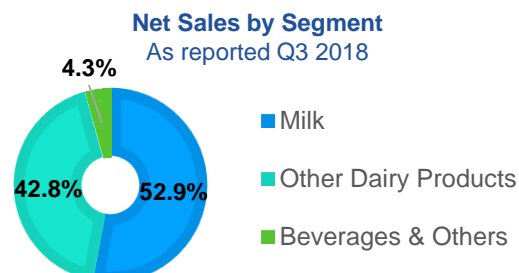
Volume by Segment: Beginning in the third quarter 2018, Grupo LALA will disclose volumes by segment. Third quarter volume increased by 13.5%, driven by Brazil and Other Dairy growth. Volume is measured in “KL”, an amount that is calculated by adding Kilos and Liters.

| Volume by Segment | As Reported | | |
|----------------------|-------------|-------|--------|
| KL in millions | Q3'17 | Q3'18 | Var. % |
| Milk | 678 | 706 | 4.2% |
| Other dairy | 143 | 226 | 58.5% |
| Beverages and others | 27 | 30 | 10.3% |
| Total Volume | 848 | 963 | 13.5% |



Net Sales by Segment: Milk sales increased by 6.0%, reflecting milk category improvement in Mexico under the LALA and NutriLeche brands, as well as the additional UHT Milk sales coming from Brazil. Other Dairy Products grew 62.3% driven by the acquisition of Vigor Alimentos in Brazil, whose portfolio has a high mix of Value-Added Dairy Products, and by the organic growth of Yogurt, Cheese and Cream. Beverages & Others increased 13.5% primarily by the Cold Cuts category of Mexico.

| Net Sales by Segment | As Reported | | |
|----------------------|-------------|--------|--------|
| MXN\$ in millions | Q3'17 | Q3'18 | Var. % |
| Milk | 9,368 | 9,928 | 6.0% |
| Other Dairy Products | 4,948 | 8,029 | 62.3% |
| Beverages & Others | 706 | 801 | 13.5% |
| Total Sales | 15,022 | 18,758 | 24.9% |



Net Sales by Region:

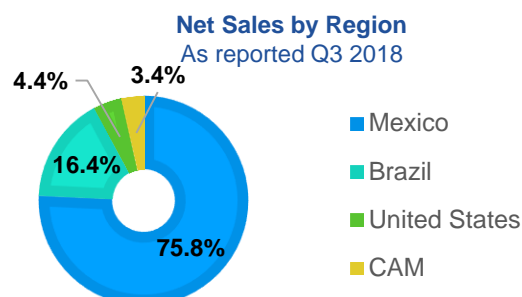
Sales in **Mexico** increased 4.7% to reach 14,252 million pesos, driven by volume and mix, as part of the Company's premiumization strategy. LALA will continue expanding market share in the region through its leading Milk and Cream categories and its strong second position in Yogurt and Cheese. LALA implemented its price increase strategy in September and will continue in October to partially offset inflation. However, the effect of the said price increase in margins is going to be reflected until the next quarter.

Brazil operations reported net sales of 3,095 million pesos; a 10.3% increase in Reals. This increase was due to strong performance in Yoghurt and Cheese, particularly in Cream Cheese and *Requejão*, where market share continues to expand 320 bps and 180 bps, respectively. Innovation remains strong, contributing with more than 25% of sales growth. LALA began gradual price increases between August and October in order to offset inflation.

U.S. operations reported net sales of 826 million pesos, a 10.3% increase, resulting from double-digit growth in the Drinkable Yoghurt category, which gained 80 bps of market share in the third quarter 2018.

Central America sales decreased by 7.9%, mainly impacted by Nicaragua's political situation. Guatemala operation achieved record sales driven by Ice Cream, Yogurt, Cream and Milk Formula. The new plants of Guatemala and Costa Rica will start producing in Q4'18 and Q2'19, respectively, this will allow these operations to no longer solely rely on Nicaragua for supplying certain products.

| Net Sales by region | As Reported | | |
|---------------------|-------------|--------|--------|
| MXN\$ in million | Q3'17 | Q3'18 | Var. % |
| Mexico | 13,611 | 14,252 | 4.7% |
| Brazil | N.A. | 3,095 | N.A. |
| United States | 749 | 826 | 10.3% |
| Central America | 699 | 644 | (7.9%) |



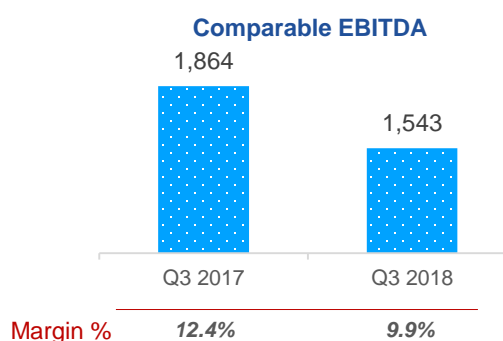
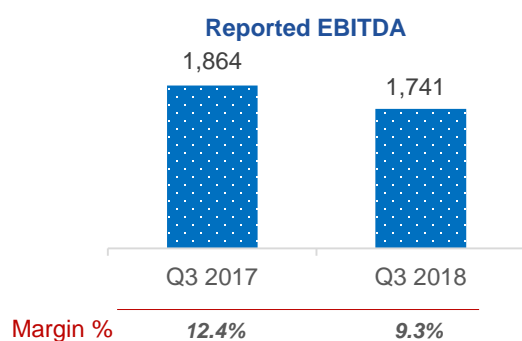
Costs and Gross Profit: Third quarter of 2018 Costs of Goods increased by 33.1%, resulting in a Gross Profit of 6,425 million pesos with 34.3% Gross Margin. This was due to the integration of Brazil operations at lower margins, as well as to margin contraction due to a 25% increase in unseasonal raw milk prices in Brazil as a consequence of the truckers strike of the previous quarter. On a comparable basis, Cost of Goods increased 8.8% leading to a YoY decrease in Gross Profit of 266 bps, as a result of higher inflation of raw materials, specifically packaging, and energy costs (electricity +37% and diesel +20%) in Mexico.

Expenses and Operating Income: Reported Operating Expenses grew 21.8%, ending at 5,312 million pesos. On a comparable basis Operating Expenses grew 5.7%, including a double-digit energy costs increase in Mexico. Reported Operating Income was 1,157 million pesos, a 18.9% decrease, while comparable Operating Income decreased by 28.8% year over year, representing a 300 bps margin contraction.

Additionally, LALA reported a one-off expense of 119 million pesos in the third quarter 2018 related to the reorganization of the Company's US and CAM businesses; expected to result in 8 million dollars in cost savings in 2019.

EBITDA: Third quarter reported EBITDA reached 1,741 million pesos; a 6.6% decrease with 310 basis points year on year margin contraction. Comparable EBITDA results declined 17.2% year on year, to 1,543 million pesos; a 250 bps margin decline. This was primarily due to:

- 1) Electricity, fuel and raw material price inflation;
- 2) Lower margins in the Brazil business, also affected by unseasonal raw milk costs;
- 3) Nicaragua political situation;
- 4) US and CAM one-off restructuring expenses.



EBITDA by Region:

Mexico EBITDA reached 1,730 million pesos, a 10.0% year on year decrease. The reduction is explained by the strategy taken during the year of softly managing prices and by the considerable impact on costs of increased raw materials prices, particularly packaging and energy (electricity and diesel). Mid-September, The Company started driving price increase forward. The expectation is to partially mitigate the inflationary effects by year end.

In **Brazil**, LALA closed the quarter with an EBITDA of 197 million pesos, with a margin of 6.4%; a 105 bps margin increase. LALA is implementing a price increase to compensate the additional pressure of unseasonal milk prices. It's important to note the devaluation of 16.8% of the Real which impacts results when consolidated into Mexican pesos.

The **U.S.** business continues with negative EBITDA, losing 158 million pesos in the quarter, affected by a one-off charge to reorganize and resize the business. Excluding this impact, the US operation would be presenting a negative EBITDA of 54 million pesos and an EBITDA margin of -6.5%. The reconfiguration of this business is an immediate efficiency strategy expected to make the US operations profitable in 4Q'18.

Central America EBITDA decreased 261.3% compared to the 3Q'17, affected by the one-off charge associated with reorganizing the business as well as to the impact of the political situation in Nicaragua. Excluding this one-off, the EBITDA of CAM would have been a 14 million peso loss. The actions that are being taken in place are expected to return CAM to profitable growth in 4Q'18.

| EBITDA | | | As Reported | | |
|------------------|--|--|-------------|---------|----------|
| MXN\$ in million | | | Q3'17 | % Sales | |
| Mexico | | | 1,922 | 14.2% | |
| Brazil | | | N.A. | N.A. | |
| United States | | | (76) | (10.1)% | |
| Central America | | | 18 | 2.6% | |
| | | | Q3'18 | % Sales | Var. % |
| Mexico | | | 1,730 | 12.2% | (10.0)% |
| Brazil | | | 197 | 6.4% | N.A. |
| United States | | | (158) | (19.1)% | N.A. |
| Central America | | | (29) | (4.6%) | (261.3%) |

Net Financial Expenses: During the period, the Company recorded financing expenses of 673 million pesos, comprised of debt-related interest due to the acquisition of Vigor Alimentos, S.A.

Taxes: Taxes for the third quarter were 266 million pesos. The company paid a \$139 million peso penalty of Income Tax for the fiscal years 2011 and 2012. This was a result of a special audit by the Mexican Tax Authority ("SAT") resulting in a penalty due to a discrepancy in the criteria used by LALA for calculating transfer prices of royalty payments. As a result, a one-time effective tax rate of 55.1% is reflected in third quarter 2018 results. This will not affect subsequent years. In a normalized situation the effective tax rate would have been around 35%.

It is also important to note, that interest payments in Mexico negatively impacted the tax rate, due to the fact that when a Mexican company incurs in bank loans or short / long-term liabilities, said company must pay an income tax derived from the inflation of the country during the fiscal year.

Net Income: Reported net income decreased 78.5%, to 216 million pesos. This is mainly attributable to a decrease in operating income, increased tax and financial expenses. When expressed in comparable figures, net income decreased by 94.7%, to 53 million pesos, primarily because of the one-offs in the quarter.

CONSOLIDATED FINANCIAL POSITION

Capital Investment: Year to date, the Company invested 1,973 million pesos in expansion and maintenance CapEx. As was announced in Q2'18, 2018 full year CapEx is expected not to exceed 3,000 million pesos.

Cash and Cash Equivalents: As of September 30, 2018, Grupo LALA had a cash position of 2,135 million pesos, including the cash balance of Vigor denominated in Brazilian Reals.

Total Debt: LALA ended the quarter with total debt of 27,448 million pesos; comprised of 1,458 million pesos in short-term debt and 25,990 million pesos in long-term debt. The Company's Net Debt was 25,313 million pesos with a Net Debt to EBITDA ratio of 3.1x.

The following table shows the composition of the Company's debt by currency, interest rate and year of maturity as of September 30, 2018.

| Currency | % Total Debt | % weighted avg. Cost of debt | Average maturity |
|-----------------|--------------|---------------------------------|------------------|
| Mexican Pesos | 90.1% | TIIE + 0.7% | 4.8 years |
| Brazilian Reals | 9.9% | CDI + 0.5% | 1.4 years |

Key Financial Data: As of September 30, 2018, the Company's key financial ratios were as follow:

| Financial Metrics | Q3 2017 | Q3 2018 |
|---------------------------------|----------|----------|
| Net Debt / EBITDA | (0.4)x | 3.1x |
| EBITDA / Interest Paid | 284.1x | 3.2x |
| Earnings per Share (12 months) | \$ 1.61 | \$ 0.61 |
| Book Value | \$ 11.50 | \$ 11.02 |
| Outstanding shares (in million) | 2,475.9 | 2,475.9 |
| ROIC % | 14.4% | 6.5% |

Q3 2018 Relevant Events

- On August 13, Grupo LALA announces dividend payment
- On August 01, the Company appoints Mauricio Leyva as its new CEO
- On July 23, 2018, Grupo LALA reported Q2 2018 results

Sell-side analyst coverage

In accordance with the provisions of article 4.033.01 subsection VIII of the BMV's rules of procedure on maintenance requirements, we report that the Broker/Credit Institutions which provide coverage analysis of our securities are: Actinver, Bank of America Merrill Lynch, Banorte-IXE, Barclays, BBVA Bancomer, BTG Pactual, Citigroup, Credit Suisse, GBM Grupo Bursatil Mexicano, Goldman Sachs, Intercam, INVEX Banco, JP Morgan, Santander, Scotiabank, UBS and Vector.

Share buyback program

As of September 30, 2018, the Company's share buyback program had a balance of 32,154,139 shares, at a weighted average price of \$26.11 pesos per share for a total balance of \$885,279,006 pesos.

Contact – Investor Relations

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About LALA

Grupo LALA is a Mexican company focused on healthy and nutritious foods, has a history of more than 65 years of experience in the production, innovation and marketing of milk, dairy products and beverages under the highest quality standards. The Company operates 31 production plants and 172 distribution centers in Mexico, Brazil, United States and Central America, supported by more than 38,000 employees. Grupo LALA's fleet of approximately 7,000 vehicles distributes its more than 600 products to more than 578,000 points of sale. LALA's portfolio is led by its three main brands: LALA®, Nutri Leche® and Vigor®.

For more information, visit: www.lala.com.mx

Grupo LALA trades on the Mexican Stock Exchange under the ticker symbol "LALA"

This press release contains certain forward-looking statements about the Company's results and outlook. However, actual results may vary materially from these estimates. The information on future events contained in this press release should be read together with a summary of these risks, which are included in the Annual Report. That information, as well as future reports issued by the Company or any of its representatives, whether verbally or in writing, may vary materially from actual results. These projections and estimates, which were prepared with reference to a specific date, should not be considered as fact. The Company has no obligation whatsoever to update or revise any of these projections and estimates, whether as a result of new information, future events, or other associated events.

CONFERENCE CALL INFORMATION



**Tuesday October 23, 2018, at
11:00am EST / 10:00am CST**



Mauricio Leyva, Chief Executive Officer
Alberto Arellano, Chief Financial Officer
David González, Investor Relations Officer



Webcast:
<http://public.vivid.com/index.php?cid=131305>

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GRUPO LALA, S.A.B. DE C.V.
Consolidated Income Statements
ended September 30, 2017 and 2018
(In thousands of nominal pesos)

| | For the three months ended | | | | For the six months ended | | | |
|--|----------------------------|---------------|---------------------|--------------|--------------------------|--------------|---------------------|--------------|
| | September 30, | | | | September 30, | | | |
| | 2017 | | 2018 | | 2017 | | 2018 | |
| Net sales | \$ 15,021,975 | 100.0% | \$ 18,757,695 | 100.0% | \$ 44,788,944 | 100.0% | \$ 55,902,821 | 100.0% |
| Cost of goods sold | 9,267,811 | 61.7% | 12,332,371 | 65.7% | 27,885,028 | 62.3% | 36,249,338 | 64.8% |
| Gross profit | 5,754,164 | 38.3% | 6,425,324 | 34.3% | 16,903,916 | 37.7% | 19,653,483 | 35.2% |
| Other income (expenses), net | (34,462) | (0.2)% | (42,887) | (0.2)% | (74,059) | (0.2)% | (149,868) | (0.3)% |
| Operating expenses | 4,361,961 | 29.0% | 5,311,585 | 28.3% | 12,662,770 | 28.3% | 15,901,480 | 28.4% |
| Operating Income | 1,426,665 | 9.5% | 1,156,626 | 6.2% | 4,315,205 | 9.6% | 3,901,871 | 7.0% |
| Net of financial (income) expenses | | | | | | | | |
| Net of financial income | (21,377) | (0.1)% | 582,570 | 3.1% | (60,941) | (0.1)% | 1,790,990 | 3.2% |
| Exchange rate (profit) loss | 32,827 | 0.2% | 90,928 | 0.5% | 242,066 | 0.5% | 105,599 | 0.2% |
| Financial instruments | (35,179) | (0.2)% | 0 | 0.0% | 1,112 | 0.0% | 10,108 | 0.0% |
| Financial income, net | (23,729) | (0.2)% | 673,498 | 3.6% | 182,237 | 0.4% | 1,906,697 | 3.4% |
| Share in the results of associated companies | 1,489 | 0.0% | (1,073) | (0.0)% | 2,355 | 0.0% | 227 | 0.0% |
| Income before taxes | 1,451,883 | 9.7% | 482,055 | 2.6% | 4,135,323 | 9.2% | 1,995,401 | 3.6% |
| Income tax expense | 444,697 | 3.0% | 265,580 | 1.4% | 1,276,119 | 2.8% | 876,944 | 1.6% |
| Net consolidated income | 1,007,186 | 6.7% | 216,475 | 1.2% | 2,859,204 | 6.4% | 1,118,457 | 2.0% |
| Non-controlling interest | 22,030 | 0.1% | 11,736 | 0.1% | 66,473 | 0.1% | 64,925 | 0.1% |
| Depreciation and amortization | 437,585 | 2.9% | 584,148 | 3.1% | 1,369,868 | 3.1% | 1,741,934 | 3.1% |
| EBITDA | \$ 1,864,250 | 12.4% | \$ 1,740,774 | 9.3% | \$ 5,685,073 | 12.7% | \$ 5,643,805 | 10.1% |
| Effective income tax rate | 30.6% | | 55.1% | | 30.9% | | 43.9% | |

GRUPO LALA, S.A.B. DE C.V.
Consolidated Statement of Financial Position
at September 30, 2017 and 2018
(In thousands of nominal pesos)

| | As of September 30, 2017 | As of September 30, 2018 |
|--|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,788,912 | \$ 2,135,056 |
| Investments in financial instruments | 188,997 | 322,687 |
| Accounts receivable | 4,306,450 | 6,431,861 |
| Taxes and other accounts receivable | 3,039,681 | 3,664,172 |
| Related parties | 69,766 | 37,208 |
| Inventories | 4,111,166 | 4,749,539 |
| Prepaid expenses | 334,344 | 470,285 |
| Current assests | 14,839,316 | 17,810,808 |
| Investments in associates | 121,235 | 131,701 |
| Property, plant and equipment, net | 18,380,722 | 22,045,586 |
| Intangible and other assets | 5,642,503 | 24,058,004 |
| Long term recoverable taxes | - | 1,601,180 |
| Deferred income tax | 302,862 | 1,247,088 |
| Non-current assets | 24,447,322 | 49,083,559 |
| Total assets | \$ 39,286,638 | \$ 66,894,367 |
| LIABILITIES | | |
| Short-term debt | \$ 22,062 | \$ 1,457,515 |
| Suppliers | 4,923,592 | 6,956,413 |
| Financial instruments liability | 0 | 29,339 |
| Related parties | 1,641,837 | 1,700,765 |
| Taxes and other accounts payable | 2,509,104 | 3,346,635 |
| Current liabilities | 9,096,595 | 13,490,667 |
| Long-term liabilities | | |
| Long-term debt | 63,818 | 25,990,352 |
| Deferred income tax and other taxes payable | 563,985 | 1,124,067 |
| Taxes payable in the long term | - | 634,001 |
| Other accounts payable | 698,801 | 2,043,661 |
| Long-term liabilities | 1,326,604 | 29,792,081 |
| Total liabilities | 10,423,199 | 43,282,748 |
| SHAREHOLDERS EQUITY | | |
| Capital Stock | 1,490,059 | 1,488,356 |
| Net premium in share placement | 13,106,506 | 12,836,921 |
| Retained earnings | 11,131,827 | 7,899,024 |
| Income of the year | 2,792,731 | 1,053,532 |
| Equity attributable to equity holders of the parent | 28,521,123 | 23,277,833 |
| Non-controlling interest | 342,316 | 333,786 |
| Total shareholders equity | 28,863,439 | 23,611,619 |
| Total liabilities and shareholders equity | \$ 39,286,638 | \$ 66,894,367 |

GRUPO LALA, S.A.B. DE C.V.
Consolidated Cash Flow Statement
for the 9 months ended September 30, 2017 and 2018
(In thousands of nominal pesos)

As of September 30, 2017 As of September 30, 2018

Operating activities:

| | | |
|--|------------------|------------------|
| Income before taxes | \$ 4,135,323 | \$ 1,995,401 |
| Depreciation, amortization, and trademarks impairment | 1,369,868 | 1,741,934 |
| Changes in net financial expenses (income) | (25,217) | 1,713,687 |
| Results from the sale of property, plant and equipment | 16,073 | (1,799) |
| Result on disposal of Associates | 0 | (3,782) |
| Other items | 75,660 | (227) |
| Total | 5,571,707 | 5,445,215 |

Changes in operation assets and liabilities

| | | |
|---|------------------|------------------|
| Accounts receivable | (290,148) | 16,401 |
| Inventories | (290,540) | 305,005 |
| Related parties | 842,209 | 951,900 |
| Suppliers | (166,248) | (134,730) |
| Taxes, other accounts receivable and prepaid expenses | (2,196,937) | (2,736,857) |
| Other assets and liabilities | 331,550 | 306,334 |
| Net cash flow provided by operating activities | 3,801,593 | 4,153,269 |

Investing activities

| | | |
|--|--------------------|--------------------|
| Acquisition of property, plant, equipment, and intangibles | (2,732,667) | (1,972,662) |
| Acquisition of intangibles and other assets | (80,697) | (110,651) |
| Proceeds from sale of property, plant, and equipment | 126,172 | 86,652 |
| Investments in Financial instruments | 988,292 | (7,068) |
| Interest collected | 93,170 | 181,700 |
| Cash received on the sale of investments | 0 | (60,964) |
| Net cash flow used in investing activities | (1,605,730) | (1,882,994) |

Financing activities

| | | |
|---|-----------------------|-----------------------|
| Net of financing and payment of financing | (2,279,033) | (4,894,053) |
| Repurchase of shares | (303,272) | (253,632) |
| Dividends paid to equity holders of the parent | (1,086,246) | (1,143,792) |
| Dividends paid to non-controlling interest | (49,000) | (105,841) |
| Net cash flows provided (used) in financing activities | \$ (3,717,551) | \$ (6,397,314) |

Net increase of cash and equivalents

| | | |
|---|---------------------|---------------------|
| Adjustments to cash due to exchange rate fluctuations | 44,499 | (471,287) |
| Cash and equivalents at beginning of the year | 4,266,101 | 6,733,382 |
| Cash and equivalents at the end of the period | \$ 2,788,912 | \$ 2,135,056 |