



Fourth Quarter 2018  
Earnings Results Conference Call

February 26, 2018

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# Agenda

1. Key Focus Points Advancements
2. Quarter Highlights
3. Financial Results



# Key Focus Points Advancements

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**1. Nurture talent**

**2. Focus on key markets & drive a virtuous cycle**

**3. Capital allocation**

**4. Increase transparency**

# 1. Nurture Talent (1/3)

## Inspiring corporate culture



### LALA values

- We are people (respect)
- We dream big
- We think like owners
- We grow by meritocracy
- We give results
- We are practical
- We are authentic
- We do not take shortcuts (ethics)
- We are example (leadership)

### Structure

- Creation of matrix BU's
- Double hatting principle
- Close to the operations
- Increase reporting span
- Reduce bureaucratic processes

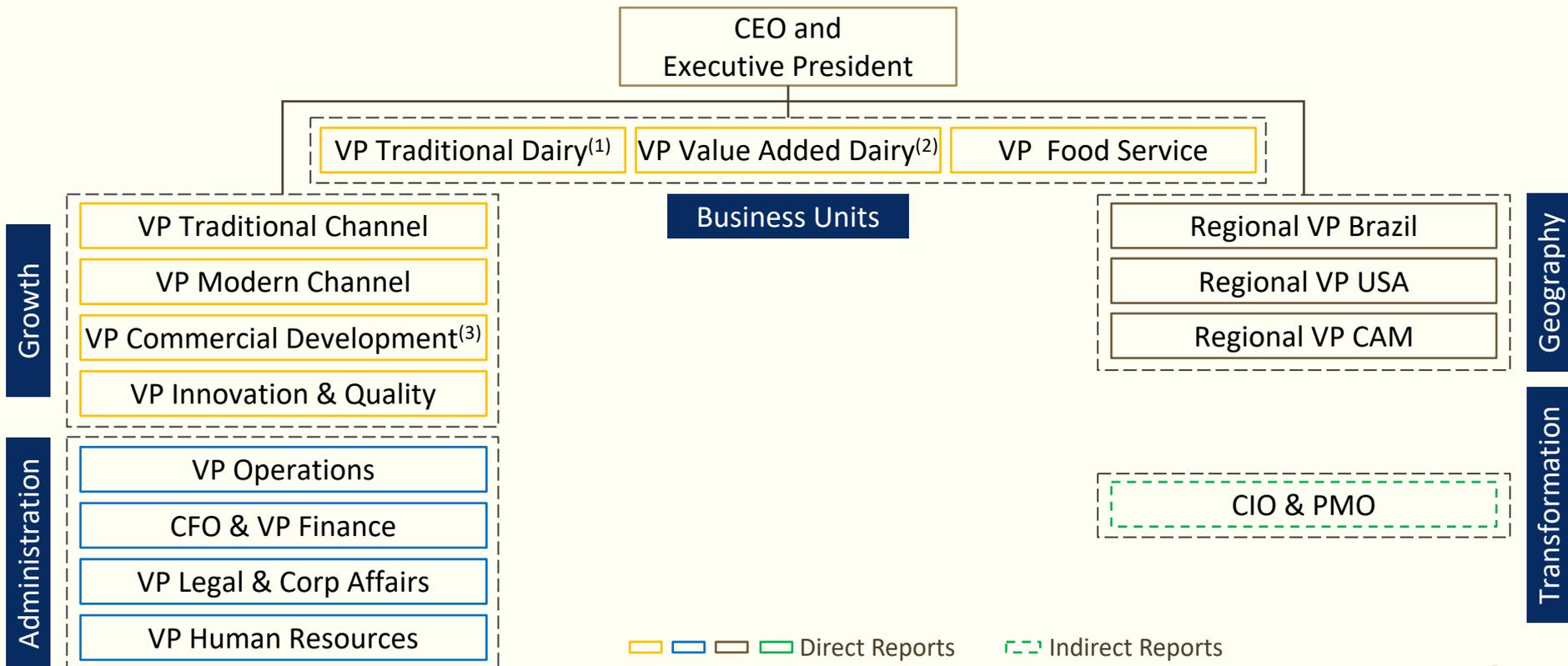
### Culture

- Open and effective communication
- Transparent and direct relationships
- Recognize big and small achievements
- Value generation defines our agenda
- We respect our communities, customers and consumers
- Diversity and inclusion to enrich decisions



# 1. Nurture Talent (2/3)

## Structure for growth in Mexico



(1) Traditional Dairy: milk, milk formula, milk alternatives and cream

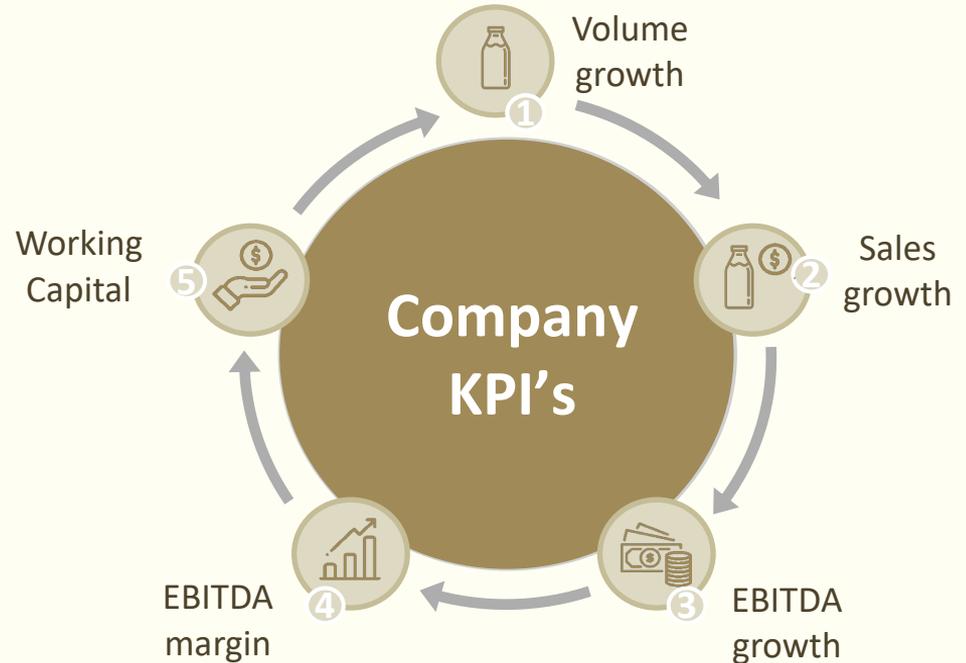
(2) Value Added Dairy: yogurt, cheese, butter and desserts

(3) Cold cuts

# 1. Nurture Talent (3/3)

Top 10<sup>(1)</sup> industry benchmark compensation plan implemented in 2019

- **Aligning employees with shareholders**
- **Variable portion going from 21% to 54% of total compensation**
- **Expansion from 20 to +200 employees**
- **Short Term Incentives (STI)**
  - Cash + RSU<sup>(2)</sup>
  - 1-3 year vesting period
- **Long Term Incentives (LTI)**
  - RSU<sup>(2)</sup>
  - 4 year vesting period
- **KPI's mix: individual and company**



(1) General Industry and Executive Compensation – Mexico 2018, Willis Towers Watson

(2) RSU: Restricted Stock Units

# Key Focus Points Advancements

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1. Nurture talent
2. Focus on key markets & drive a virtuous cycle
3. Capital allocation
4. Increase transparency

# 2. Focus on Key Markets (1/4)

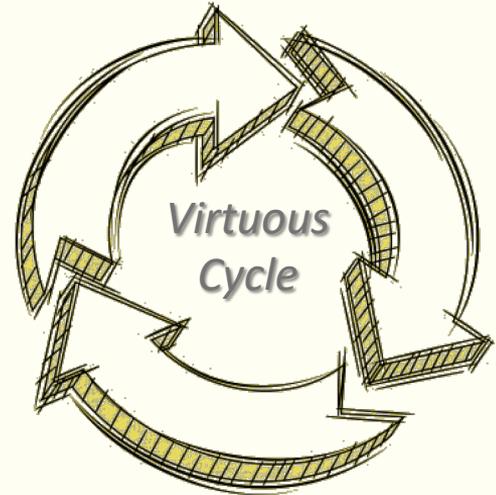
## Virtuous cycle to win in Mexico

### Invest in growth –projects started

- Modernization and brand disruption – S1'19
- Packaging update and design – S1'19
- Creative campaigns that reach the new generations – S2'19
- Revenue management – S2'19
- Route to market – S1'19
- Innovation process from Vigor – S2'19
- Food service: Culinary Central – S1'19
- 8 milestone campaigns tied to innovation to drive growth in 2019

### Cost optimization

- ZBB<sup>(1)</sup>
  - P&L designed to control fixed and variables costs
  - PMO already in place to ensure budget targets
- Procurement
  - Redefining global procurement area to accelerate regional opportunities
  - Variable compensation aligned to control and compensate adversities
  - Procurement organization focused on pricing, value engineering and payment terms



## 2. Focus on Key Markets (2/4)

### Partnership with Blue Diamond Growers (BDG) in Mexico



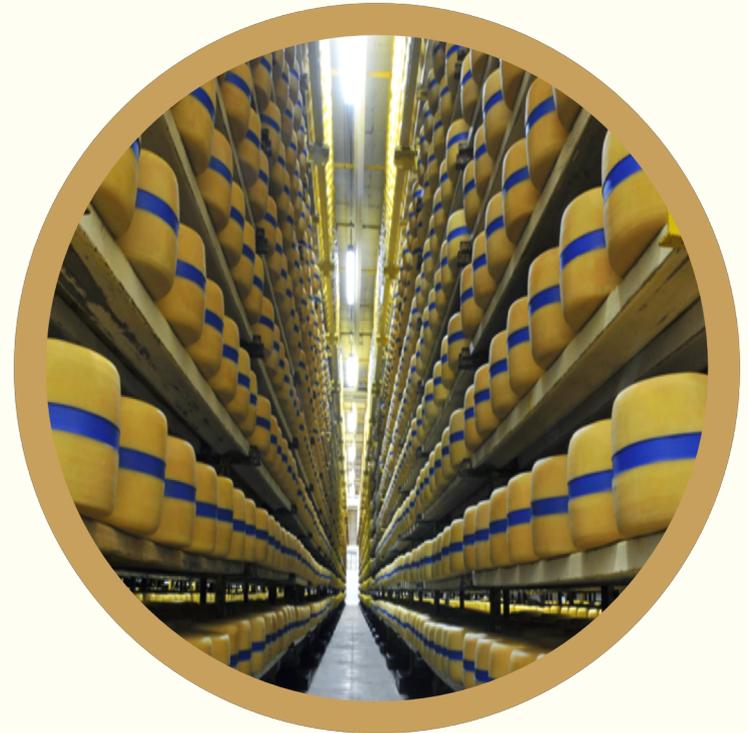
- BDG is the world's leading almond supplier and number one global brand for Almond Milk
- License agreement to market and distribute almond-based beverages
  - **BDG**
    - source almond-based raw materials
    - technical and quality-oriented expertise
    - almond based innovation pipeline
  - **LALA**
    - local and regional market knowledge
    - production and distribution capabilities
- Reinforce premiumization strategy
  - Blue Diamond – premium
  - Vita Almendras – mainstream
- Almond Milk market in Mexico has grown 23% in volume and 29% in value during the last year<sup>(1)</sup>



## 2. Focus on Key Markets (3/4)

### Expanding profitably in Brazil

- Innovation for 2019 in Cheese, Yogurt and Desserts to increase margins
  - Desserts consumption is an early indicator of economic recovery
- Investment of R\$70m in the São Gonçalo plant in Rio de Janeiro to quadruple the storage capacity of Parmesan Cheese
- Vigor ready to surf the wave of growth expected by the market



## 2. Focus on Key Markets (4/4)

### New digital alliances



Co-Invest in our digital transformation  
First to access new technologies



Analytics to understand better the millennial mom



Connect better our organization  
Agile collaboration and recognition



WhatsApp

First FMCG in Mexico using corporate WhatsApp  
Omnichannel communication with clients and consumers



1 of 3 companies with a strategic agreement in Mexico  
New services development



E-commerce development in Mexico and Brasil



# Key Focus Points Advancements

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1. Nurture talent
2. Focus on key markets & drive a virtuous cycle
3. Capital allocation
4. Increase transparency

# 3. Capital Allocation (1/2)

## Aligning capital allocation strategy

### *Where to play, How to win & Capital Allocation – S2'19*

#### **Improvements in Working Capital**

- Cancellation of advance payment to milk producers (MXN \$1Bn)
- Negotiation with large suppliers (packaging, media, insurance companies, etc.) from 45-60 to 90 days

#### **CAPEX**

- From 5.9% of sales or MXN \$3.7Bn in 2017 to 3.2% or MXN \$2.4Bn in 2018
- Capex for 2019 should be around 3.5% - 4.0% of sales

#### **Exploiting intellectual synergies**

- Innovation: products
- Processes: IT, legal, back-office, audit, revenue management, manufacturing, compliance and internal governance
- Talent: strengthening an experienced team

#### **M&A**

- Priority to deleverage the company
- Analysis based on portfolio complementarity
- Discipline and ROIC on M&A decisions



# 3. Capital Allocation (2/2)

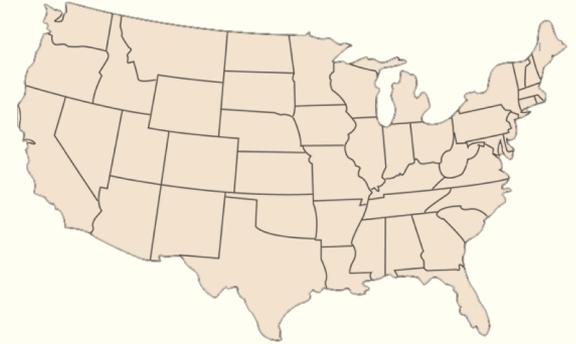
Break-even achieved in US & CAM in Q418

## Both restructuring processes executed

- Fit for purpose organizations
- Double hatting principle
- US savings of USD \$6m FY19
- CAM savings of USD \$2m FY19

## Guatemala and Costa Rica plants launched

All regions with positive EBITDA in 2019



# Key Focus Points Advancements

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- 1. Nurture talent**
- 2. Focus on key markets & drive a virtuous cycle**
- 3. Capital allocation**
- 4. Increase transparency**

# 4. Increase Transparency

Improving accountability

## Increasing disclosure

- Volumes per region
- Market share
- Historical information
  - Excel with historical numbers
  - Mexico and CAM regions separated
  - Volumes per region and segment
- Financial statements & annual reports translated to English

## Disclosure consistency

- Regions (Mexico and CAM)
- Market share variance per region (every 6 months)
- Growth in local currency



# Quarter Highlights

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# Mexico

## Sequential recovery of EBITDA margins

### Solid business fundamentals

- +4.5% sales growth driven by price increase and volume growth
- Sequential EBITDA margin recovery of 90 bps vs Q3'18
- Price increase strategy to continue in Q1'19 to enable margin recovery
- Continue with premiumization strategy
- ZBB implementation in progress
- Improvements in Working Capital (milk, packaging, media, insurance, etc.)
- Creation of Food Service business unit



### Position in market & market share bps variation



Milk<sup>(1)</sup>  
53.4%  
+30 bps



Yogurt<sup>(1)</sup>  
24.2%  
-20 bps



Packaged Cheese<sup>(1)</sup>  
25.2%  
+100 bps



Cream<sup>(1)</sup>  
44.6%  
-70 bps

(1) Value sales by segment. Source: Nielsen Retail December RY 2018 vs. December RY 2017

# Brazil

## Steady improvement in EBITDA margin

### Solid growth

- +10% sales growth in BRL driven by mix, volume and price increase
- Additional price increase planned for S1'19
- Strengthening Food Service: McDonald's supplier award for best quality
- Historical branding campaign (R\$50m)
  - Vigor brand awareness above international and local competitors<sup>(1)</sup>
  - Vigor Greek Yogurt and Requeijão – Top of Mind Award<sup>(2)</sup>



### Position in market & market share bps variation



**Greek Yogurt<sup>(3)</sup>**  
35.6%  
+380 bps



**Yogurt<sup>(3)</sup>**  
9.7%  
+30 bps



**Requeijão<sup>(3)</sup>**  
14.5%  
+80 bps



**Cream Cheese<sup>(3)</sup>**  
23.1%  
+90 bps



(1) Quantas Institute 2018

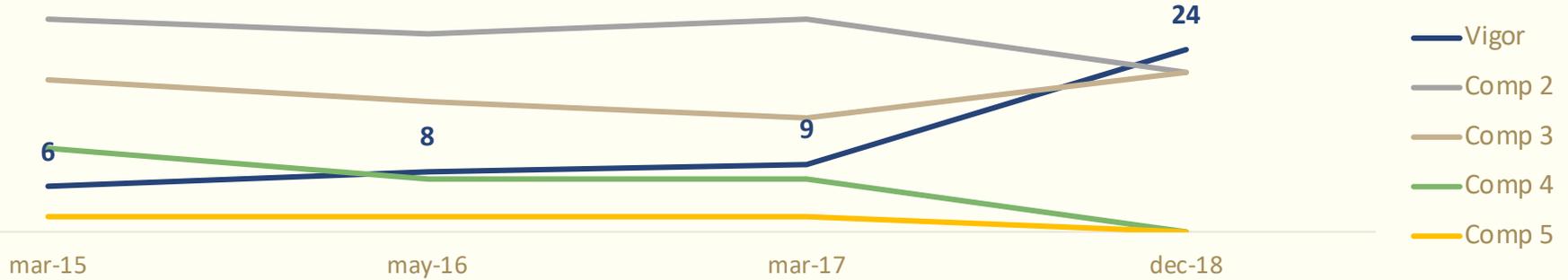
(2) Instituto Data Folha

(3) Value sales by segment. Source: Nielsen RY November 2018 vs. RY November 2017

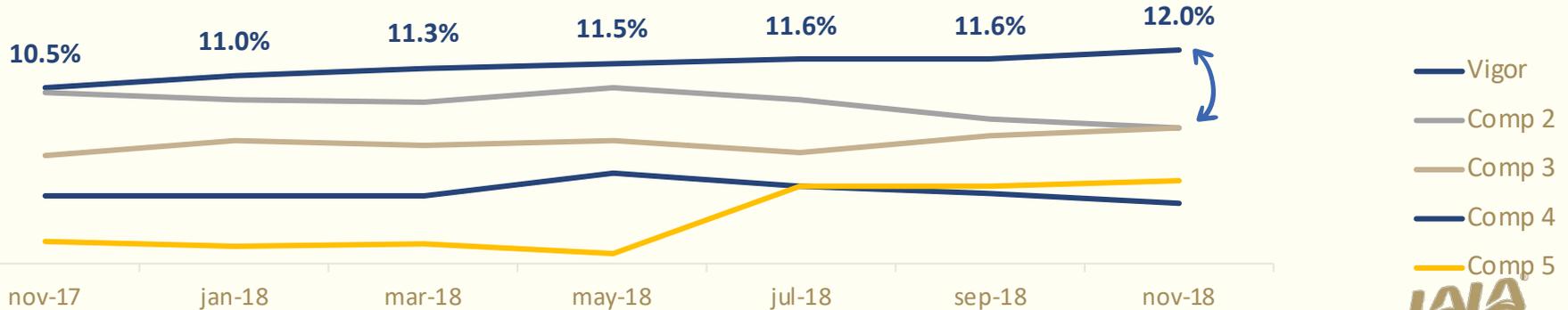
# Brazil

## Vigor brand awareness above international and local competitors

### Top of Mind Evolution of Dairy Products<sup>(1)</sup>



### Market Share of Requeijão<sup>(2)</sup>



(1) Quantas Institute: Measurement in SP, RJ, Recife and Curitiba. Includes: yogurt, desserts fermented milk

(2) Nielsen Retail November 2018



# United States

US achieves structural break-even

## Restructure for profitable growth

- USD \$290k EBITDA in Q4'18, due to structural changes:
  1. +3.6% sales growth in USD driven by volume
  2. Promised Land portfolio reengineered to maximize margin
  3. Promised Land co-manufactured in East Coast
  4. Closure of Texas plant
- Colorado co-packing to increase capacity utilization from 40% to 65%
- Fit for purpose 100% executed, expected benefits in Q1'19 (US\$6m FY19)
- New innovation launched: Probiotic Smoothie

## Position in market & market share bps variation



Adult Drinkable Yogurt<sup>(1)</sup>

20.4%

+70 bps



Flavoured Milk<sup>(2)</sup>

4.1%

+70 bps



(1) Value sales by segment. Source: Nielsen December RY 2018 vs. December RY 2017

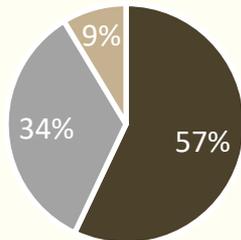
(2) Value sales by segment. Source: Nielsen August RY 2018 vs. August RY 2017

# Central America

CAM achieves break-even

## Restructure for profitable growth

- USD \$240k EBITDA, due to:
  1. -13% CAM sales contraction in USD caused by crisis in Nicaragua
  2. Ice-cream sales grew +8% in Guatemala and +93% in Costa Rica
  3. Continuing restructuring process in Nicaragua
    - Focus in Ice-cream capacity (most profitable product of the region)
- Kick-off of LALA brand national expansion in Costa Rica
  - Guinness record achieved in Costa Rica of Milk glasses served for breakfast
- Rightsizing 100% executed, Panama office closed, expected benefits in Q1'19 (US\$2m FY19)
- New plants in Guatemala (Milk, Ice-cream, Cream and Cheese) and Costa Rica (Milk and Ice-cream)



**CAM Sales by Country**  
As reported FY 2018

- Nicaragua
- Guatemala
- Costa Rica



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# Central America

## Inauguration of plants in Costa Rica and Guatemala

### New plant in Guatemala (4Q18)



Capex: USD \$8.9m

### New plant in Costa Rica (1Q19)



Capex: USD \$13.4m



# Financial Results



# Sales Evolution FY

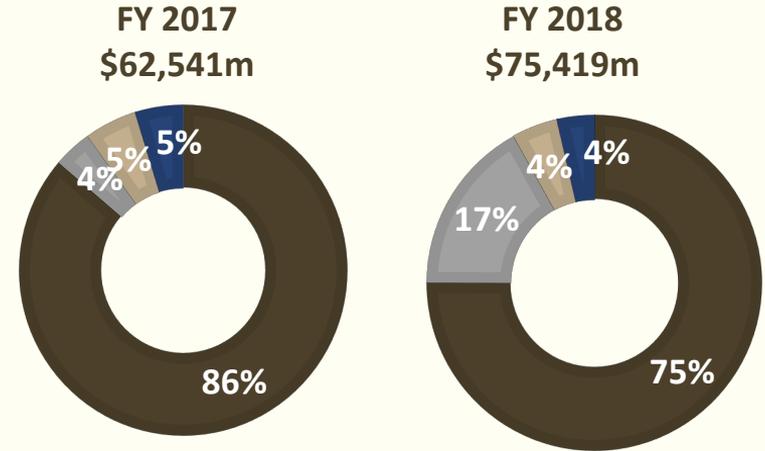
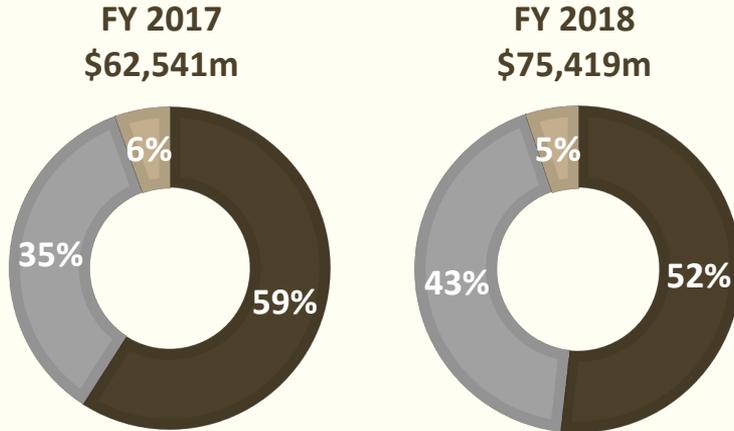
Portfolio mix improved after Vigor's acquisition

## Sales by Segment

## Sales by Region

■ Milk ■ Other Dairy ■ Beverages and Others

■ Mexico ■ Brazil<sup>(1)</sup> ■ US ■ CAM

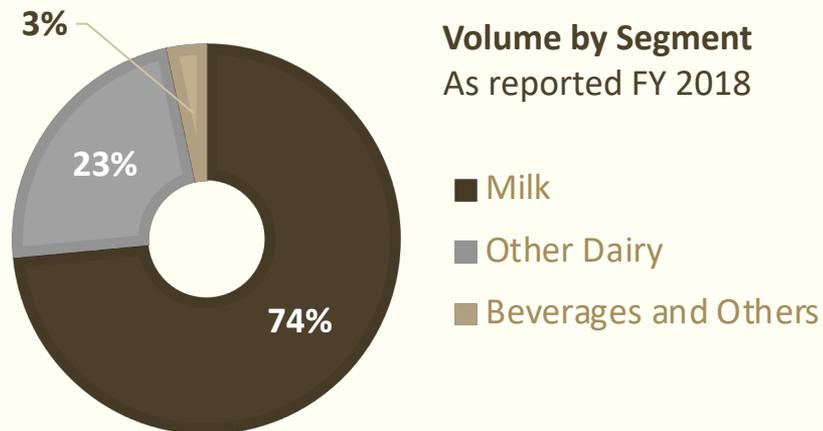


(1) Includes only November and December 2017

# Volume by Segment Q4 and FY

6.2% YOY volume growth in Q4

Volume by Segment	As Reported			As Reported		
	Q4'17	Q4'18	Var. %	2017	2018	Var. %
<i>KL<sup>(1)</sup> in millions</i>						
Milk	683	706	3.4%	2,683	2,772	3.3%
Other Dairy	191	223	16.6%	622	873	40.4%
Beverages and Others	30	31	4.1%	118	126	6.5%
<b>Total Volume</b>	<b>904</b>	<b>960</b>	<b>6.2%</b>	<b>3,423</b>	<b>3,771</b>	<b>10.2%</b>

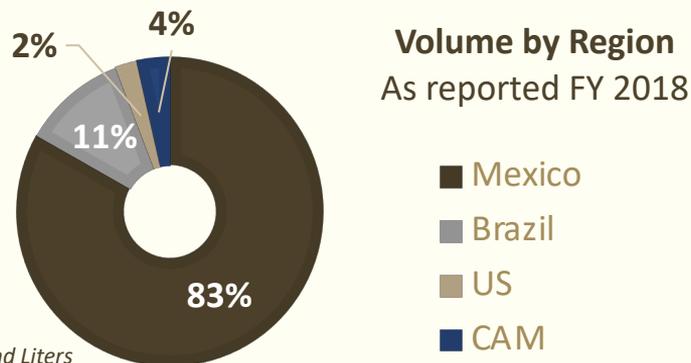


(1) KL: Volume measurement is calculated by adding Kilos and Liters

# Volume by Region Q4 and FY

2.0% YOY comparable volume growth in Q4

Volume by Region	As Reported			As Reported		
<i>KL<sup>(1)</sup> in millions</i>	Q4'17	Q4'18	Var. %	2017	2018	Var. %
Mexico	780	799	2.5%	3,116	3,149	1.1%
United States	22	22	2.3%	87	86	(1.4)%
Central America	36	33	(8.9%)	153	134	(12.6)%
<b>Comparable</b>	<b>838</b>	<b>854</b>	<b>2.0%</b>	<b>3,356</b>	<b>3,369</b>	<b>0.4%</b>
Brazil	66 <sup>(2)</sup>	106	59.4%	66 <sup>(2)</sup>	402	505.7%
<b>Total Volume</b>	<b>904</b>	<b>960</b>	<b>6.2%</b>	<b>3,423</b>	<b>3,771</b>	<b>10.2%</b>



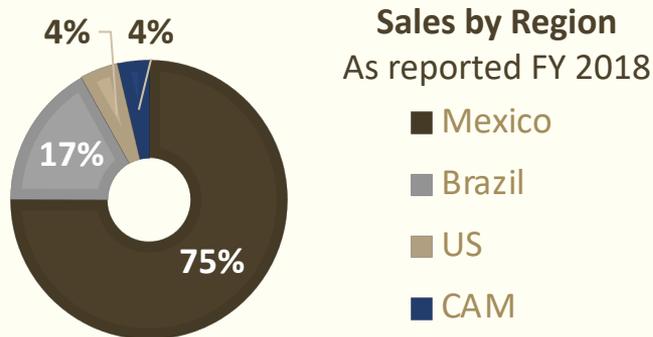
(1) KL: Volume measurement is calculated by adding Kilos and Liters

(2) Includes only November and December 2017

# Net Sales by Region Q4 and FY

4.1% YOY comparable net sales growth in Q4

Net Sales by Region	As Reported			As Reported		
	Q4'17	Q4'18	Var. %	2017	2018	Var. %
<i>MXN\$ in millions</i>						
Mexico	13,863	14,492	4.5%	53,973	56,596	4.9%
United States	819	904	10.3%	3,254	3,373	3.7%
Central America	721	646	(10.3%)	2,965	2,686	(9.4%)
<b>Comparable</b>	<b>15,403</b>	<b>16,042</b>	<b>4.1%</b>	<b>60,192</b>	<b>62,655</b>	<b>4.1%</b>
Brazil	2,348 <sup>(1)</sup>	3,475	48.0%	2,348 <sup>(1)</sup>	12,765	443.6%
<b>Total Sales</b>	<b>17,751</b>	<b>19,516</b>	<b>9.9%</b>	<b>62,540</b>	<b>75,419</b>	<b>20.6%</b>



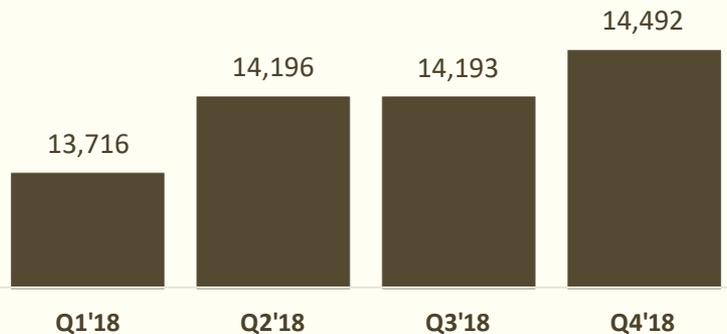
(1) Includes only November and December 2017

# Net Sales at a Glance 2018

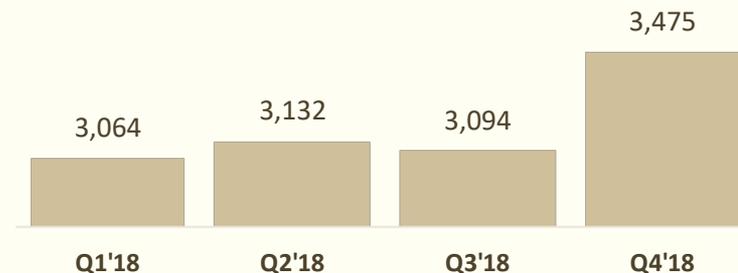
## Net sales quarterly evolution

MXN \$ (millions)

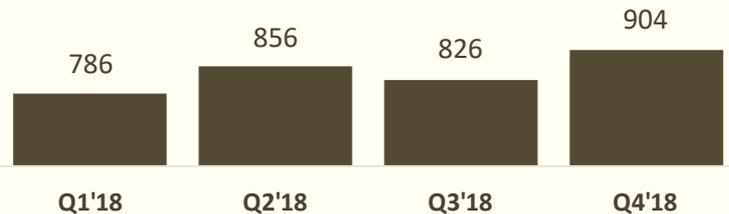
### Mexico - Net Sales



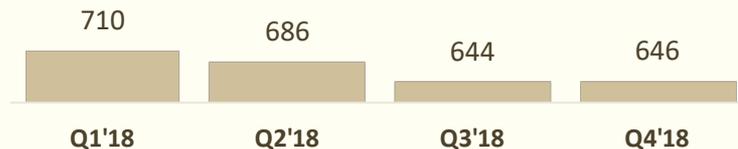
### Brazil - Net Sales



### US - Net Sales



### CAM - Net Sales

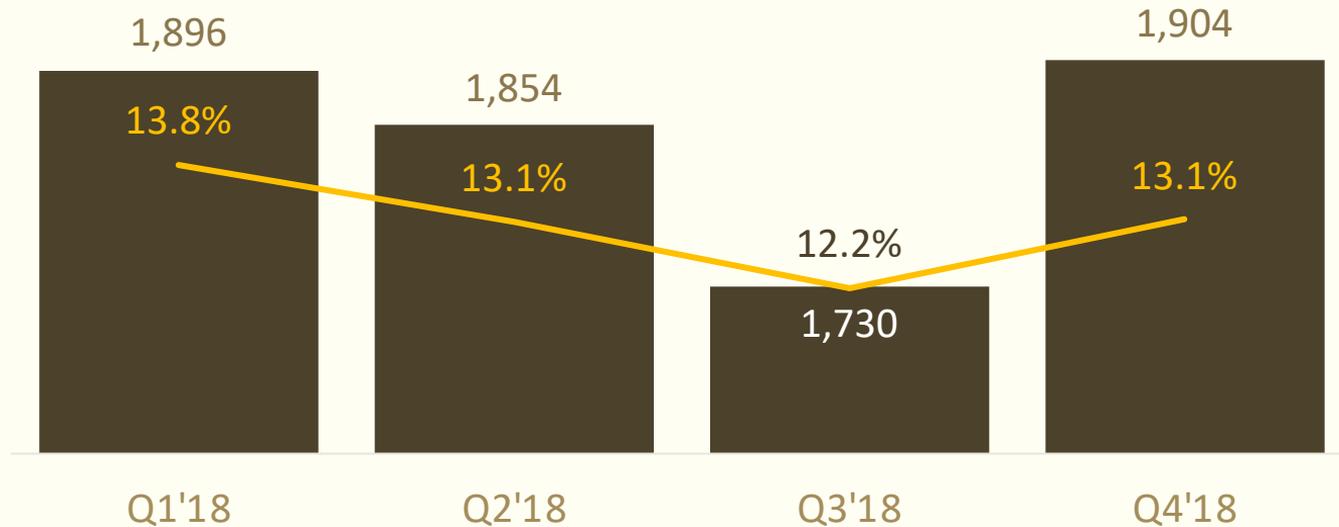


# EBITDA evolution per region 2018

Sequential margin recovery

MXN \$ (millions)

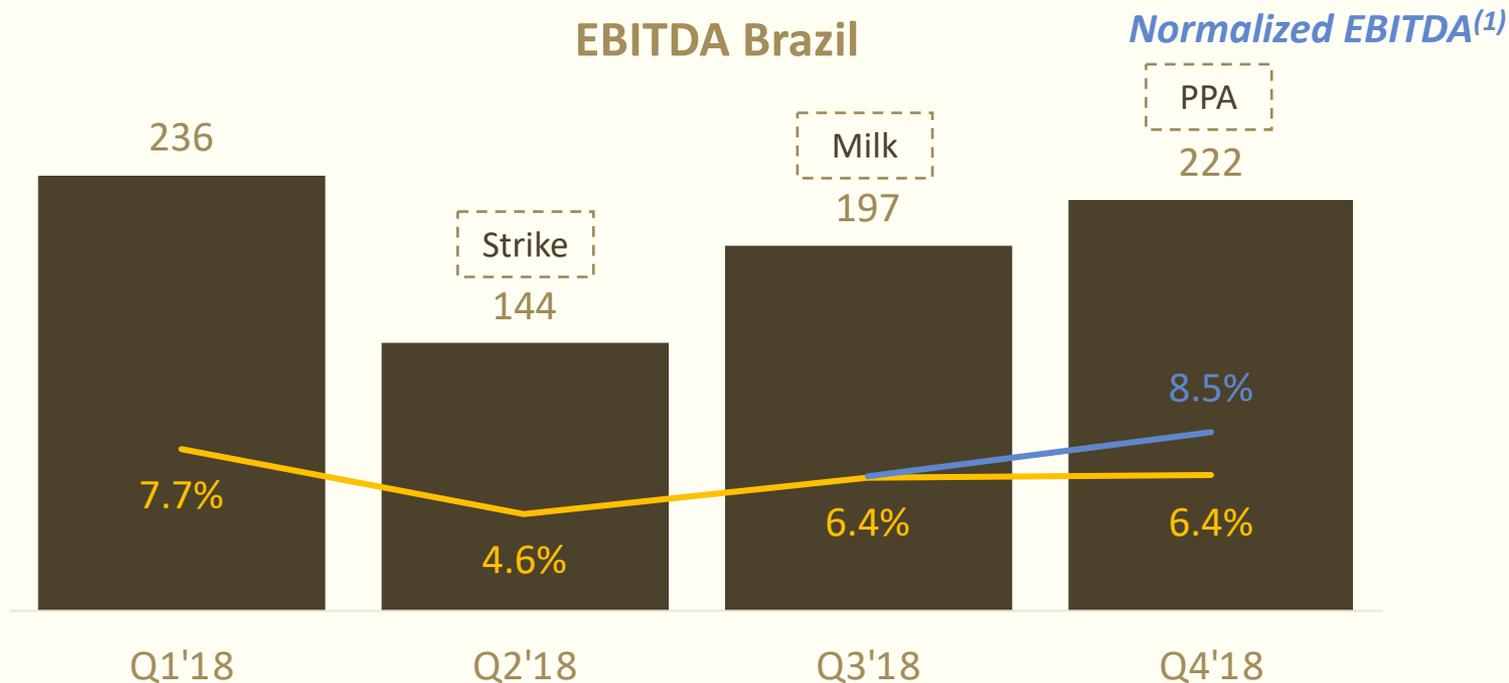
## EBITDA Mexico



# EBITDA evolution per region 2018

Sequential margin improvement

MXN \$ (millions)

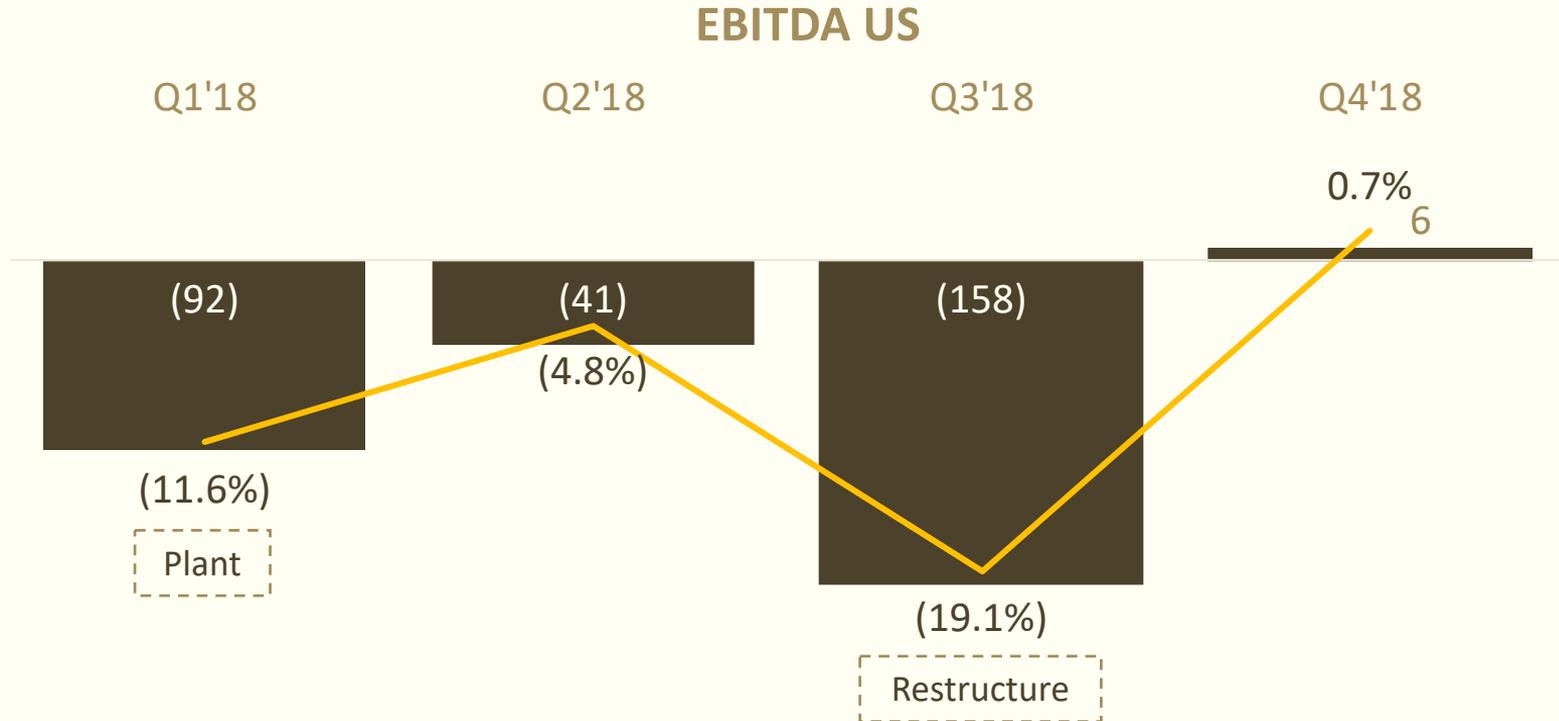


(1) Excluding PPA

# EBITDA evolution per region 2018

Structural break-even in Q4'18

MXN \$ (millions)

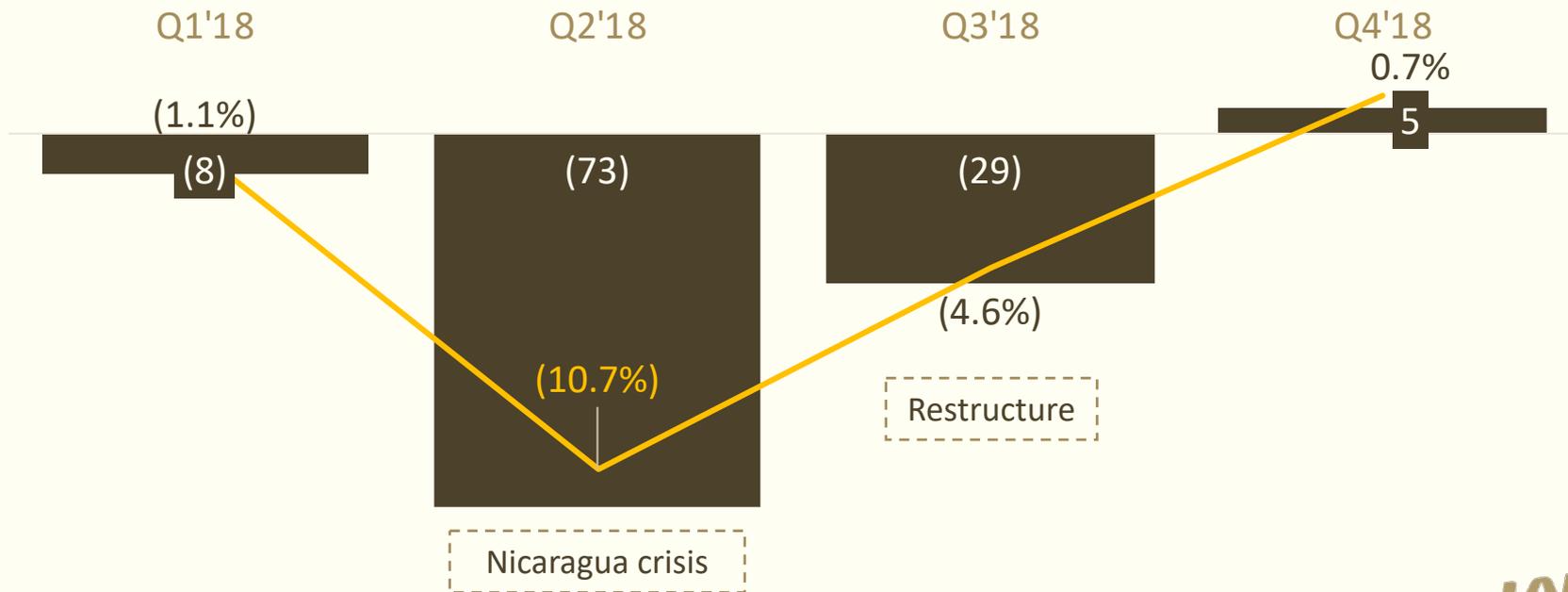


# EBITDA evolution per region 2018

Sequential margin improvement

MXN \$ (millions)

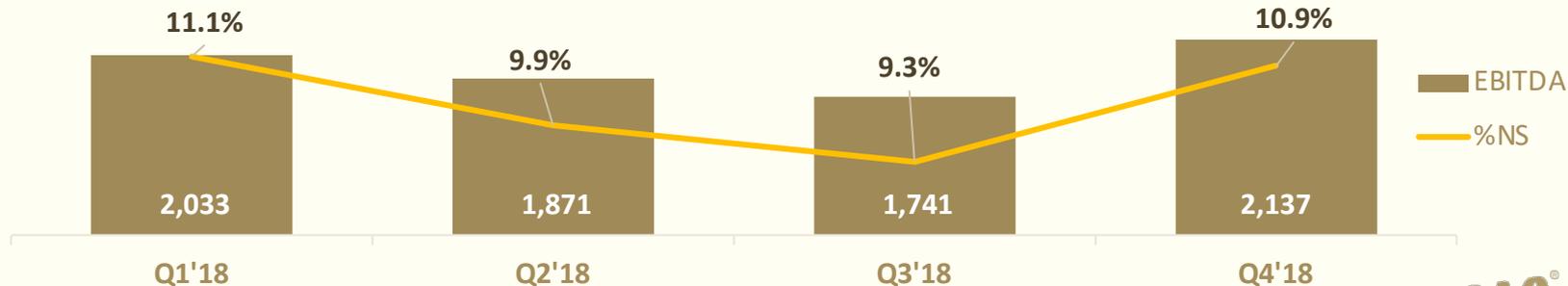
## EBITDA CAM



# EBITDA per Region Q4

## EBITDA margin sequential recovery in Q4'18

EBITDA	Quarterly				
	Q4'17	% NS	Q4'18	% NS	Var. bps
<i>MXN\$ in millions</i>					
Mexico	2,110	15.2%	1,904	13.1%	(210)
United States	(104)	(12.7%)	6	0.7%	1,340
Central America	(25)	(3.4%)	5	0.7%	420
<b>Comparable EBITDA</b>	<b>1,981</b>	<b>12.9%</b>	<b>1,915</b>	<b>11.9%</b>	<b>(90)</b>
Brazil	379 <sup>(1)</sup>	16.1%	222	6.4%	(980)
<b>Total EBITDA</b>	<b>2,360</b>	<b>13.3%</b>	<b>2,137</b>	<b>10.9%</b>	<b>(230)</b>
<b>Total EBITDA excluding one-offs</b>	<b>2,145<sup>(2)</sup></b>	<b>12.1%</b>	<b>2,212<sup>(3)</sup></b>	<b>11.3%</b>	<b>(80)</b>



(1) Includes only November and December 2017

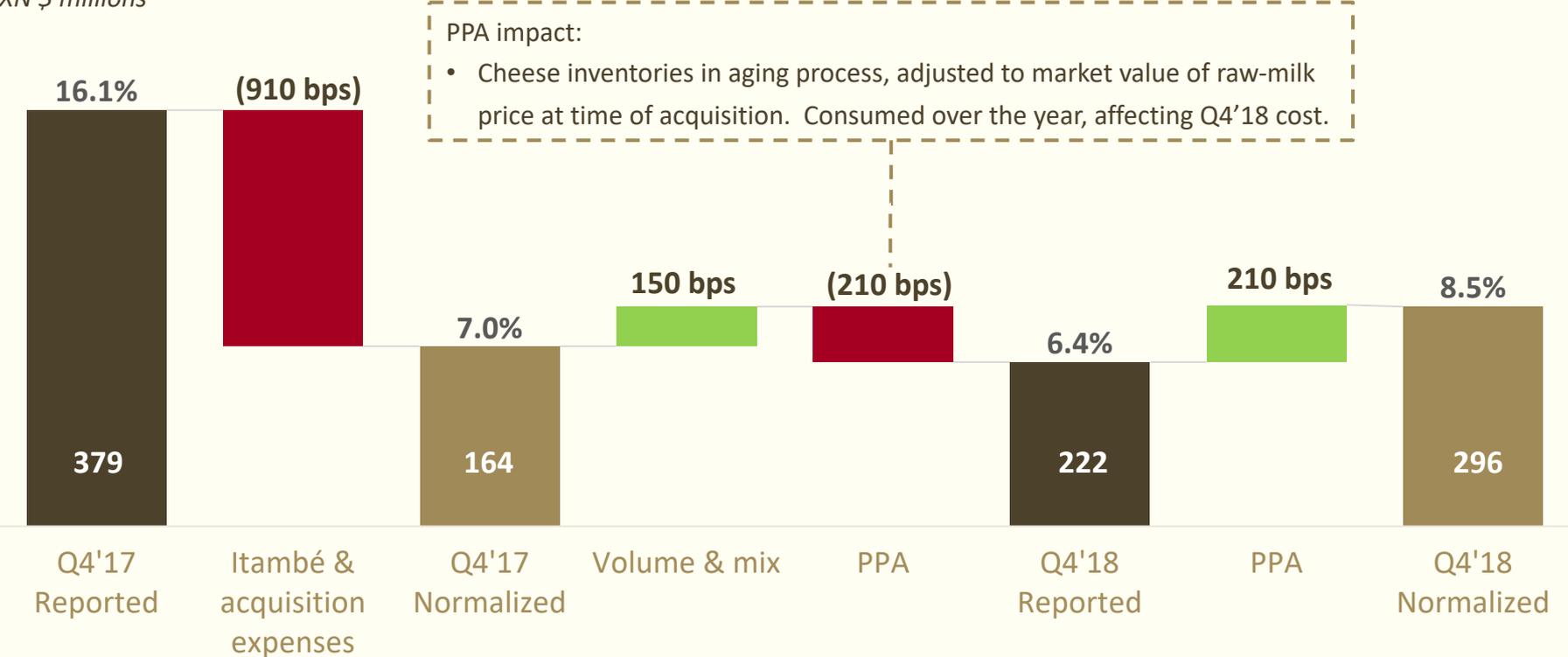
(2) Excludes sale of Itambé and expenses related to acquisition of Vigor

(3) Excludes PPA one-off

# Brazil EBITDA Q4

Excluding one-offs Brazil improved margin by 150 bps in Q4'18

MXN \$ millions

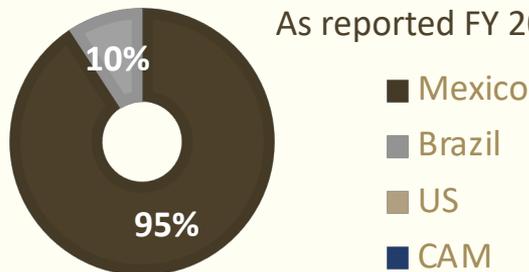


# EBITDA per region FY

EBITDA margin sequential recovery in Q4

EBITDA	Yearly				
<i>MXN\$ in millions</i>	2017	% NS	2018	% NS	Var. bps
Mexico	7,887	14.6%	7,385	13.0%	(160)
United States	(244)	(7.5%)	(297)	(8.8%)	(130)
Central America	24	0.8%	(106)	(3.9%)	(470)
<b>Comparable EBITDA</b>	<b>7,666</b>	<b>12.7%</b>	<b>6,982</b>	<b>11.1%</b>	<b>(160)</b>
Brazil	379 <sup>(1)</sup>	16.1%	799	6.3%	(990)
<b>Total EBITDA</b>	<b>8,045</b>	<b>12.9%</b>	<b>7,781</b>	<b>10.3%</b>	<b>(250)</b>

**EBITDA by Region**  
As reported FY 2018



(1) Includes only November and December 2017

# Net Income Q4 and FY

Net income increased MXN \$397 million in Q4

	Quarterly			Yearly		
<i>MXN\$ (Millions)</i>	Q4'17	Q4'18	Var. %	2017	2018	Var. %
Operating Income	1,859	1,510	-18.8%	6,175	5,411	-12.4%
Financing Expenses	461	546	18.5%	643	2,453	281.5%
% NS	2.6%	2.8%		1.0%	3.3%	
Net income before taxes	1,399	962	-31.3%	5,534	2,957	-46.6%
% NS	7.9%	4.9%		8.8%	3.9%	
Taxes	920	86	-90.6%	2,196	963	-56.1%
Effective tax rate	65.8%	9.0%		39.7%	32.6%	
<b>Net income</b>	<b>479</b>	<b>875</b>	<b>82.9%</b>	<b>3,338</b>	<b>1,994</b>	<b>-40.3%</b>
% NS	2.7%	4.5%		5.3%	2.6%	

- Financing expenses increased for the debt was acquired on October 23, 2017
- Taxes include \$157 million pesos benefit due to double taxation related to re-patriation of Brands to Mexico during 2014



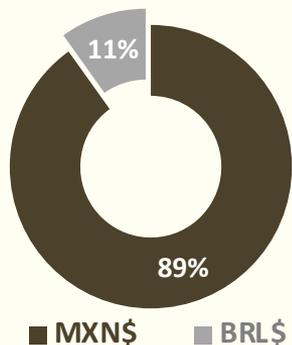
# Total Debt as of December 31, 2018

Net Debt/ EBITDA: 3.1x

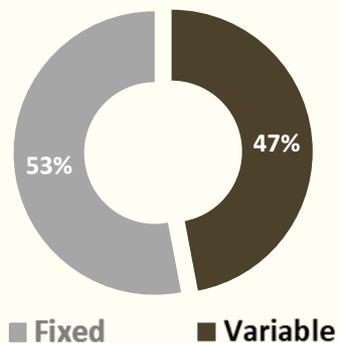
Total Debt: MXN \$26,499 million

	Mexico	Brazil
Average Tenor	4.8 years	0.9 years
Average Cost	TIIE + 0.6%	CDI + 0.7%

CURRENCY MIX (%)



RATE MIX (%)

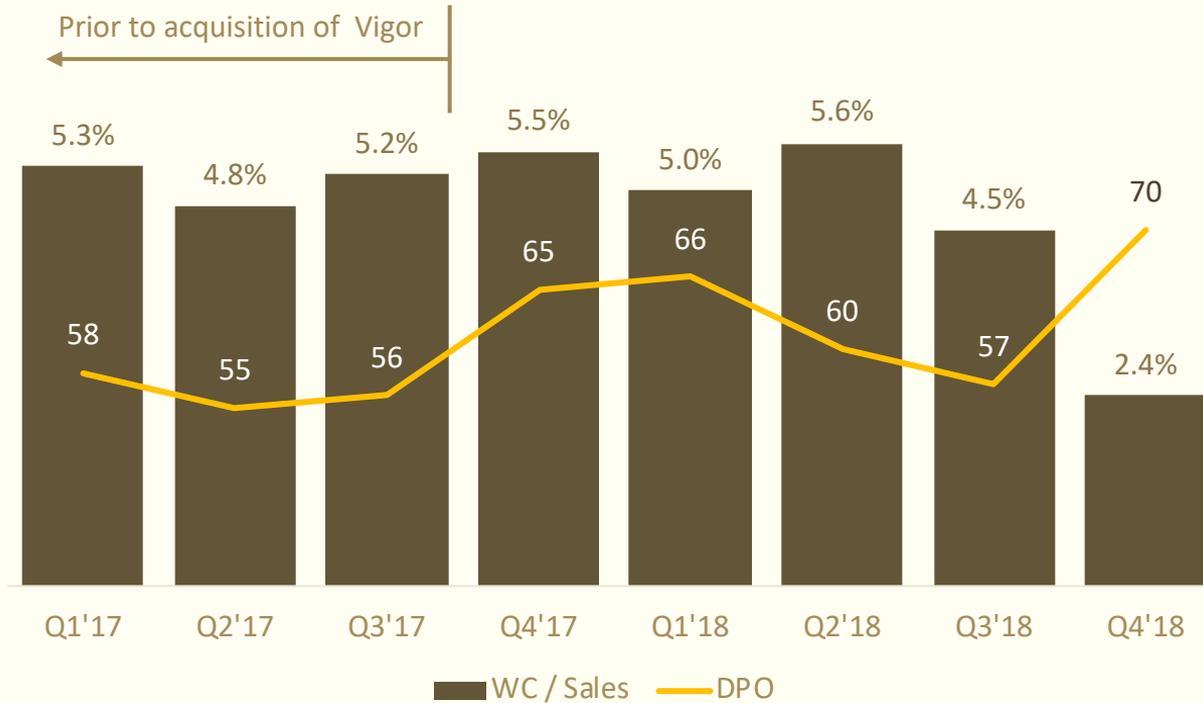


MATURITY MIX (%)



# Working Capital

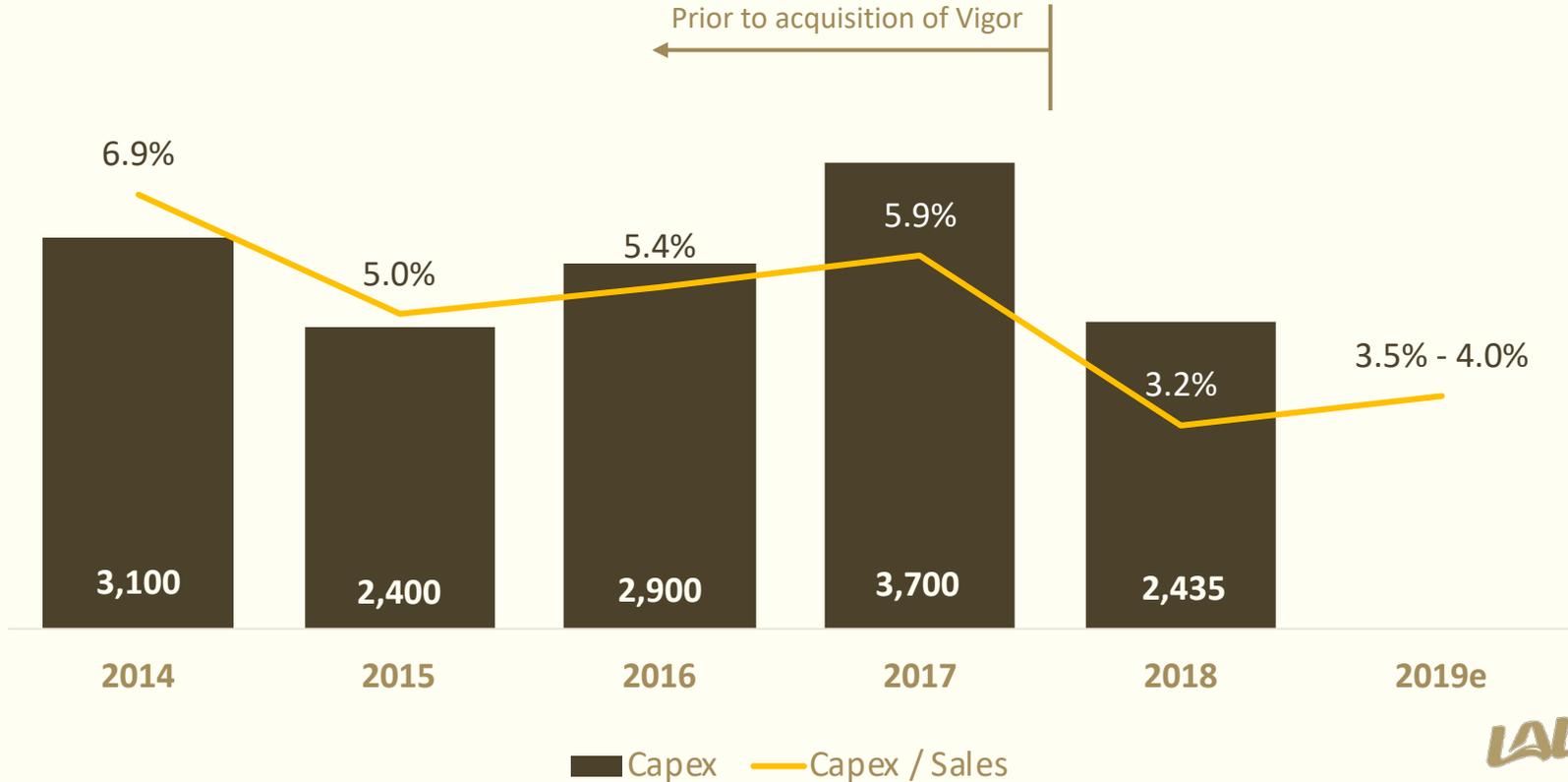
Focus on working capital optimization delivering results



# CAPEX

## Capex stabilization

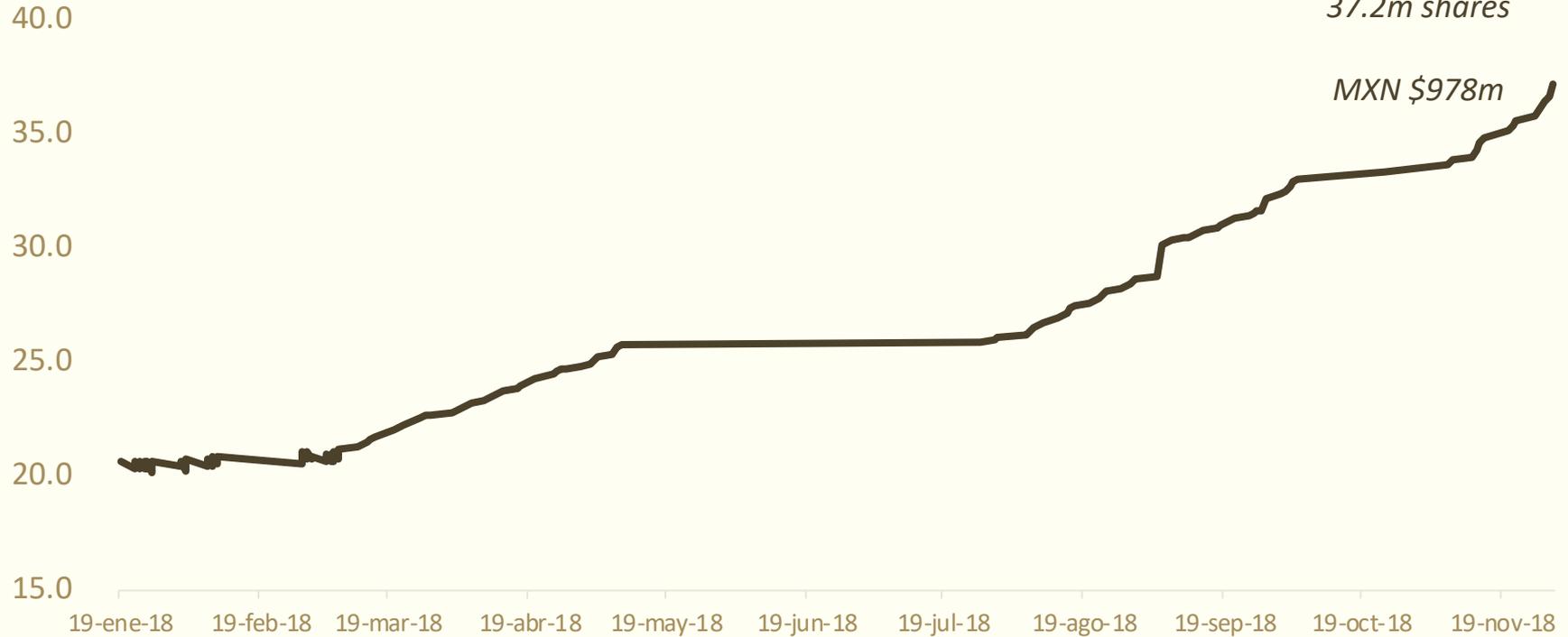
MXN in millions



# Share Buyback Program

Increased activity in 2018

Million Shares



37.2m shares

MXN \$978m

— Stock accumulated



# Closing Remarks

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- 1 Ongoing Cultural and Talent Enhancement

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- 2 Structure for growth with key focus in Mexico

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- 3 Early signs of margin recovery in key markets and reversing the drags

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- 4 Revenue management, innovation and ZBB as key levers for growth (Virtuous Cycle)

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- 5 Need to transform effort into financial results

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A top-down view of a rustic wooden bowl filled with granola, white yogurt, fresh raspberries, blueberries, and almonds. The bowl is placed on a white-painted wooden plank surface. Scattered around the bowl are more granola pieces, whole almonds, and fresh raspberries and blueberries.

**Thank you!**



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