



**Second Quarter 2019  
Earnings Results Conference Call**

July 25, 2019

# Safe Harbor

---

This material does not constitute an offering document. This material was prepared solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities. Any offering of securities will be made solely by means of an offering memorandum, which will contain detailed information about the Company and its business and financial results, as well as its financial statements.

Securities may not be offered or sold in the United States unless they are registered or exempt from registration under the U.S. Securities Act of 1933, as amended.

This presentation includes forward-looking statements or statements about events or circumstances which have not yet occurred. We have based these forward-looking statements largely on our current beliefs and expectations about future events and financial trends affecting our businesses and our future financial performance. These forward-looking statements are subject to risk, uncertainties and assumptions, including, among other things, general economic, political and business conditions, in Mexico, United States and Latin America as a whole. The words “believes”, “may”, “will”, “estimates”, “continues”, “anticipates”, “intends”, “expects”, and similar words are intended to identify forward-looking statements. We undertake no obligations to update or revise any forward-looking statements because of new information, future events or other factors.

In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this presentation might not occur. Therefore, our actual results could differ substantially from those anticipated in our forward-looking statements.

No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. It should not be regarded by recipients as a substitute for the exercise of their own judgment. We and our affiliates, agents, directors, employees and advisors accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this material.

This material does not give and should not be treated as giving investment advice. You should consult with your own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent that you deem it necessary, and make your own investment, hedging and trading decision based upon your own judgment and advice from such advisers as you deem necessary and not upon any information in this material.





# Agenda

- 1. Priorities**
- 2. Quarter Highlights**
- 3. Financial Results**

# Results Related to Priorities (1/2)

---

- 1. 3.3% YOY topline<sup>(1)</sup> in constant currency, and 1.5% in consolidated rates; growth driven by +3.9% in Mexico, affected by flat sales in Brazil and 9.6% BRL depreciation**
- 2. Brazil performance offsetting increase in input milk cost; anticipating price increase vs. competition**
- 3. Mexico innovation driving growth: 5.5% of sales (2X compared to last year)**
- 4. Productivity of MXN \$988m YTD (\$568m in Q2'19) reinvested in fueling growth**
- 5. Solid quarterly EBITDA<sup>(1)</sup> MXN \$2,220m (+14.4% YOY<sup>(1)</sup>); highest margin<sup>(1)</sup> in the last 6 quarters**



*(1) Q2'18 comparable figures, include IFRS 16 and the deconsolidation of Elopak JV*

# Results Related to Priorities (2/2)

---

6. **+130 bps YOY EBITDA<sup>(1)</sup> margin expansion, all regions increasing margins**
7. **-290 bps YOY working capital improvement: 2.7% of sales**
8. **Leverage ratio improvement to 3.1x: target of <2.5x by 2020**
  - *2.9x pro forma leverage ratio includes the effect of Itambé settlement paid on July 3<sup>rd</sup>, 2019*
9. **Controlling net income growth of +44.6% YOY based on operating income increase and with optimized tax rate**



(1) Q2'18 comparable figures, include IFRS 16 and the deconsolidation of Elopak JV

# Second Quarter 2019 Highlights



# Mexico (1/4)

## Virtuous cycle to win in Mexico

### Solid business fundamentals

- +3.9% sales growth YOY<sup>(1)</sup>
- +46.0% growth in premium categories
- 13.6% EBITDA margin, +10 bps YOY<sup>(1)</sup> and sequential expansion
- Continuous working capital on sales improvement achieving 0.2% (-390bps YOY)
- As competitors increase yogurt and cream prices, LALA's business plan remains focused on recovering market share

### Market position & market share bps variation



**Milk<sup>(2)</sup>**  
**52.9%**  
**+10 bps**



**Yogurt<sup>(2)</sup>**  
**24.0%**  
**-30 bps**



**Packaged Cheese<sup>(2)</sup>**  
**25.0%**  
**+60 bps**



**Cream<sup>(2)</sup>**  
**43.8%**  
**-100 bps**



**Plant Based<sup>(3)</sup>**  
**18.6%**  
**+90 bps**

(1) Q2'18 comparable figures, include IFRS 16 and the deconsolidation of Elopak JV

(2) Value sales by segment. Source: Nielsen Retail June RY 2019 vs. June RY 2018

(3) Value sales by segment. Source: Nielsen Scantrack June RY 2019 vs. June RY 2018

# Mexico (2/4)

## Virtuous cycle to win in Mexico

### Strong growth in value added dairy

- +7.1% sales growth YOY
- Greek yogurt launched based on successful Brazil product design and formula
- Strong marketing campaign to support product launch

### Brand Recognition

- Kantar World Panel Brand Footprint award: LALA (#3) and Nutri (#4) most recognized FMCG brands
- Bronze Cannes Lion award for World Cup campaign



# Mexico (3/4)

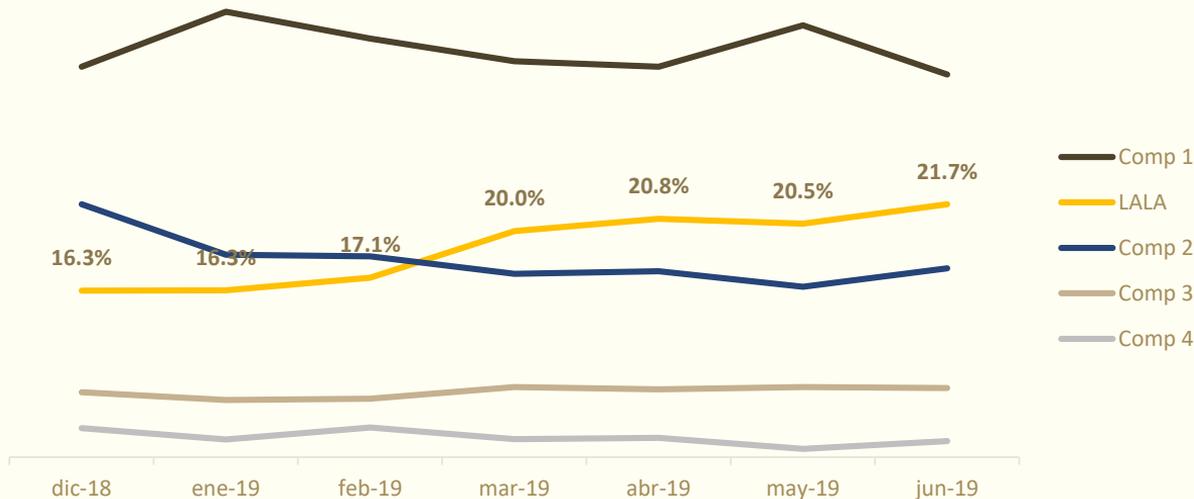
## Virtuous cycle to win in Mexico

### Plant based portfolio

- +118.2% sales growth YOY
- LALA Vita and Almond Breeze:  
#2 player in the market



### Plant based market share<sup>(1)</sup>



### Virtuous cycle: Investing in growth

- ZBB driving MXN \$988m in productivity, YTD (\$568m in Q2'19) reinvested in growth



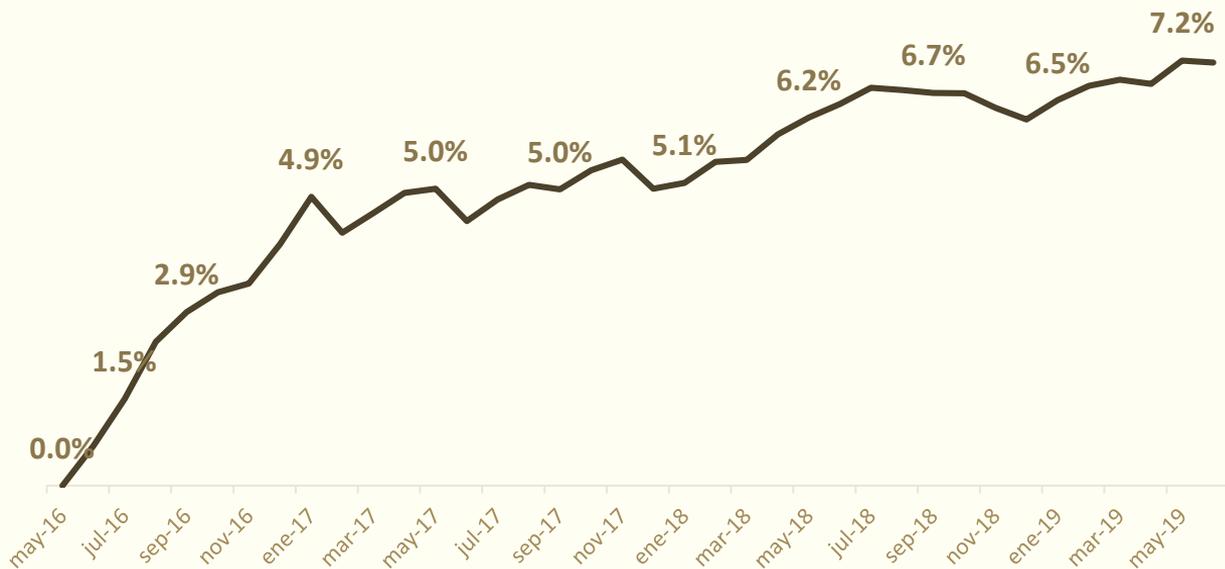
(1) Value sales by segment. Source: Nielsen Scantrack June RY 2019 vs. June RY 2018

# Mexico (4/4)

## Virtuous cycle to win in Mexico

### Premiumization strategy

- Premium milk achieves 7.2% market share<sup>(1)</sup> of total milk sales with: LALA 100 and Suprema



(1) Value sales by segment. Source: Nielsen Scantrack June RY 2019 vs. June RY 2018

# Brazil (1/2)

## Sequential EBITDA margin expansion

### Stable margins in challenging environment

- 7.8% EBITDA margin, +240bps YOY<sup>(1)</sup> and +20bps sequential expansion
  - Q2'18 impacted by truckers strike
- +0.3% sales growth in BRL YOY
  - Growth is being driven by Fermented Milk (+30,4%), Fine Cheese + Parmesan (+7,9%)
  - Milk cost pressure of 25% - pass cost on to consumer to sustain margins
  - Sales affected by macroeconomic environment
  - Competitors lag LALA, instituting price increase during recent weeks
  - As competitors increase prices, LALA business plan remains focused on recovering market share

### Market position & market share bps variation



Refrigerated<sup>(2)</sup>  
8.3%  
0 bps



Requeijão<sup>(2)</sup>  
14.2%  
-30 bps



Cream Cheese<sup>(2)</sup>  
22.8%  
-30 bps



Parmesan Cheese<sup>(2)</sup>  
32.8%  
-20 bps



(1) Q2'18 comparable figures, include IFRS 16

(2) Value sales by segment. Source: Nielsen June RY 2019 vs. June RY 2018; Refrigerated (yogurts + fermented milk + desserts)

# Brazil (2/2)

## Expanding footprint in yogurt category

### Investing in growth

- Innovation continues to drive growth expanding yogurt portfolio
  - 25 gram protein yogurt
  - Vigor Todo Dia yogurt
- Vigor Minions branding campaign

### Brand recognition

- Kantar World Panel Brand Footprint award:
  - #5 Dairy Brand (↑3 rank increase)
  - #26 Total Brand in Brazil (↑10 rank increase)



# United States

## EBITDA margin expansion

### Profitable growth

- +1.6% sales growth in USD YOY
- 2.8% EBITDA margin (USD \$1.3m), +840 bps YOY<sup>(1)</sup>  
(increase of USD \$3.8m) and +80 bps sequential expansion
  - Pricing, operational improvements and fit for purpose benefits
- Adult drinkable yogurt portfolio optimization to focus on profitable regions and channels



### Market position & market share bps variation



Adult Drinkable Yogurt<sup>(2)</sup>

19.3%

-110 bps



Premium Milk<sup>(3)</sup>

2.4%

0 bps

(1) Q2'18 comparable figures, include IFRS 16

(2) Value sales by segment. Source: Nielsen RY June 2019 vs. RY June 2018

(3) Value sales by segment. Source: IRI RY June 2019 vs. RY June 2018



# Central America

## Sustaining EBITDA breakeven

### Recovering growth

- +4.4% sales growth in USD YOY
  - Nicaragua +10.1% sales in NIO after Q2'18 market contraction
  - Guatemala +14.7% sales in GTQ
  - Costa Rica expanding distribution and seeding market
- 0.5% EBITDA margin (USD \$0.2m), +1,070 bps YOY<sup>(1)</sup> (increase of USD \$3.7m)
  - Rightsizing benefits from closing Panama office
  - Q2'18 affected by socioeconomic impact in Nicaragua
- Mu! brand acquired in Costa Rica
  - Expanding milk portfolio to serve value segment while LALA brand focuses on mainstream



### Market position & market share bps variation



Milk Guatemala<sup>(2)</sup>  
33.2%  
+130 bps



Milk Costa Rica<sup>(2)</sup>  
4.1%  
+340 bps



Yogurt Guatemala<sup>(2)</sup>  
26.6%  
+190 bps



Yogurt Nicaragua<sup>(2)</sup>  
45.7%  
+100 bps



(1) Q2'18 comparable figures, include IFRS 16

(2) Value sales by segment. Source: Nielsen RY May 2019 vs. RY May 2018

# Event Post Q2

## Grupo LALA and Groupe Lactalis Reach an Agreement Related to CCPR Sale of Itambé Alimentos, S.A.

- Grupo LALA had a dispute related to the sale of Itambé Alimentos, S.A. from CCPR to Groupe Lactalis on December 5, 2017
- Agreement reached on July 3, 2019 enables LALA to focus on value added business
  - All judicial and arbitral procedures have terminated
  - LALA received a compensatory payment from Groupe Lactalis, to be recognized in Q3'19
  - Cash proceeds from this agreement to be used to deleverage, reach 2.9x Net Debt to EBITDA (proforma Q2'19 ratio)



# Financial Results



# Net Sales by Segment Q2

1.5% YOY<sup>(1)</sup> net sales growth in Q2

Sales by Segment				constant currency <sup>(2)</sup>
MXN\$ in millions	Q2'18 <sup>(1)</sup>	Q2'19	Var. %	Var. %
Milk	9,565	10,025	4.8%	5.1%
Other Dairy	8,097	8,076	(0.3%)	3.4%
Beverages and Others	934	775	(17.0%)	(16.8%)
<b>Total Sales</b>	<b>18,596</b>	<b>18,876</b>	<b>1.5%</b>	<b>3.3%</b>

- **Milk:** growth in all regions excluding Brazil
- **Other Dairy:** growth driven by Mexico, CAM and Brazil, but adversely impacted by BRL depreciation
- **Beverages and Others:** Plant Based beverages and Cold Cuts in Mexico drove growth, but could not offset decreased beverage portfolio in Mexico

(1) Q2'18 comparable figures, include deconsolidation of Elopak JV

(2) Constant currency uses constant BRL for Brazil and USD for the US and CAM



# Net Sales by Region Q2

1.5% YOY<sup>(1)</sup> net sales growth in Q2

				constant currency <sup>(2)</sup>
MXN\$ in millions	Q2'18 <sup>(1)</sup>	Q2'19	Var. %	Var. %
Mexico	13,922	14,467	3.9%	3.9%
Brazil	3,132	2,839	(9.3%)	0.3%
United States	856	860	0.5%	1.6%
Central America	686	710	3.5%	4.4%
<b>Total Sales</b>	<b>18,596</b>	<b>18,876</b>	<b>1.5%</b>	<b>3.3%</b>

- **Mexico:** growth in all segments, adversely impacted by decreased raw milk sales
- **Brazil:** growth driven by Other Dairy, negatively impacted by UHT milk and BRL depreciation
- **USA:** Promised Land brand continues to grow, but affected USA affected by volume contraction due to yogurt price increase and USD depreciation
- **CAM:** growth in all segments, affected by local currencies and USD depreciation

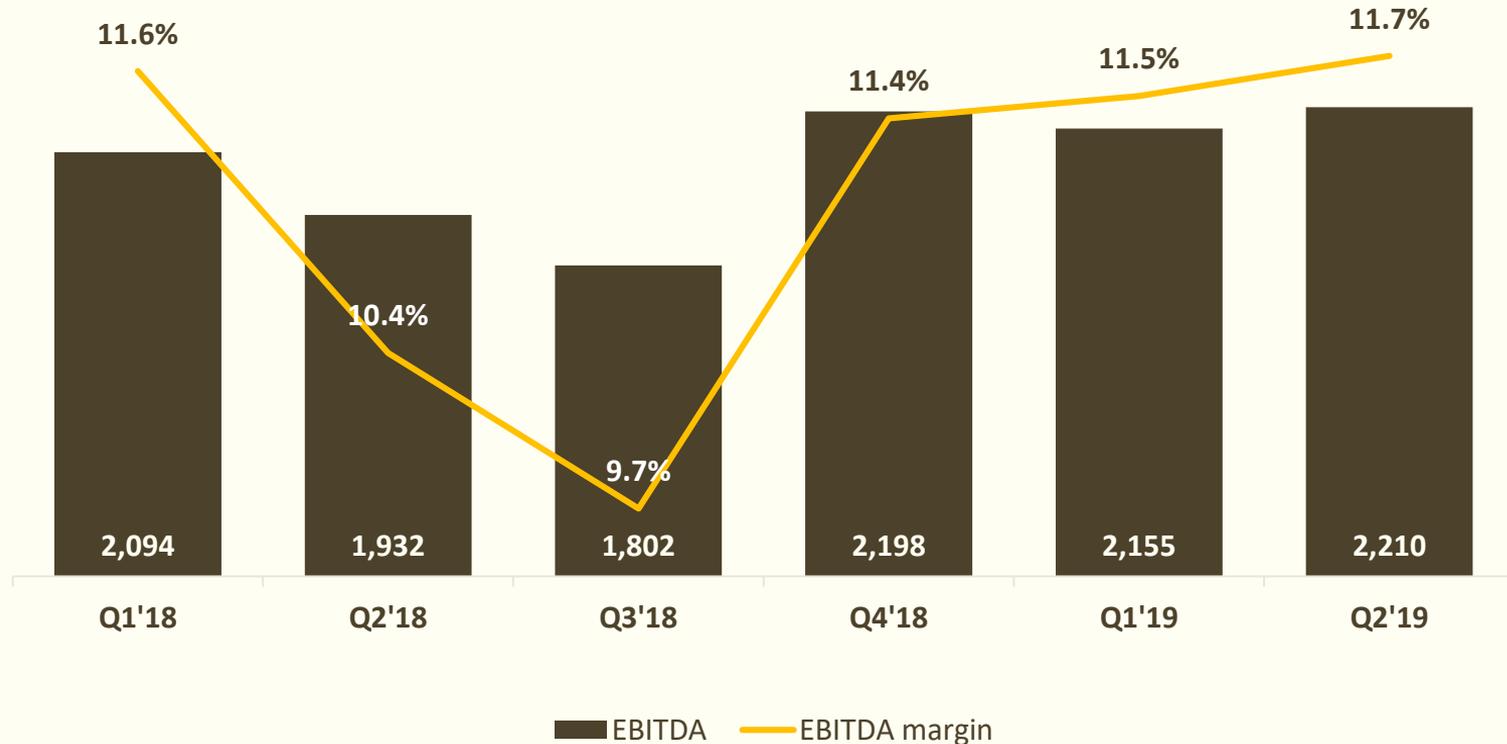
(1) Q2'18 comparable figures, include deconsolidation of Elopak JV

(2) Constant currency uses constant BRL for Brazil and USD for the US and CAM



# Total EBITDA Q2

Sequential and YOY<sup>(1)</sup> EBITDA margin improvement in Q2'19

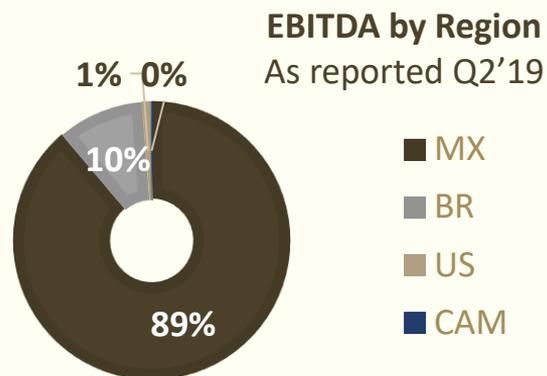


(1) Q2'18 comparable figures, include IFRS 16 and the deconsolidation of Elopak JV

# EBITDA per Region Q2

All regions achieved sustainable positive EBITDA in Q2 2019

EBITDA					
MXN\$ in millions	Q2'18 <sup>(1)</sup>	% NS	Q2'19	% NS	Var. bps
Mexico	1,880	13.5%	1,962	13.6%	10
Brazil	170	5.4%	220	7.8%	240
United States	(48)	(5.6%)	24	2.8%	840
Central America	(70)	(10.2%)	3	0.5%	1,070
<b>Total EBITDA</b>	<b>1,932</b>	<b>10.4%</b>	<b>2,210</b>	<b>11.7%</b>	<b>130</b>



(1) Q2'18 comparable figures, include IFRS 16 and the deconsolidation of Elopak JV

# Consolidated Net Income Q2

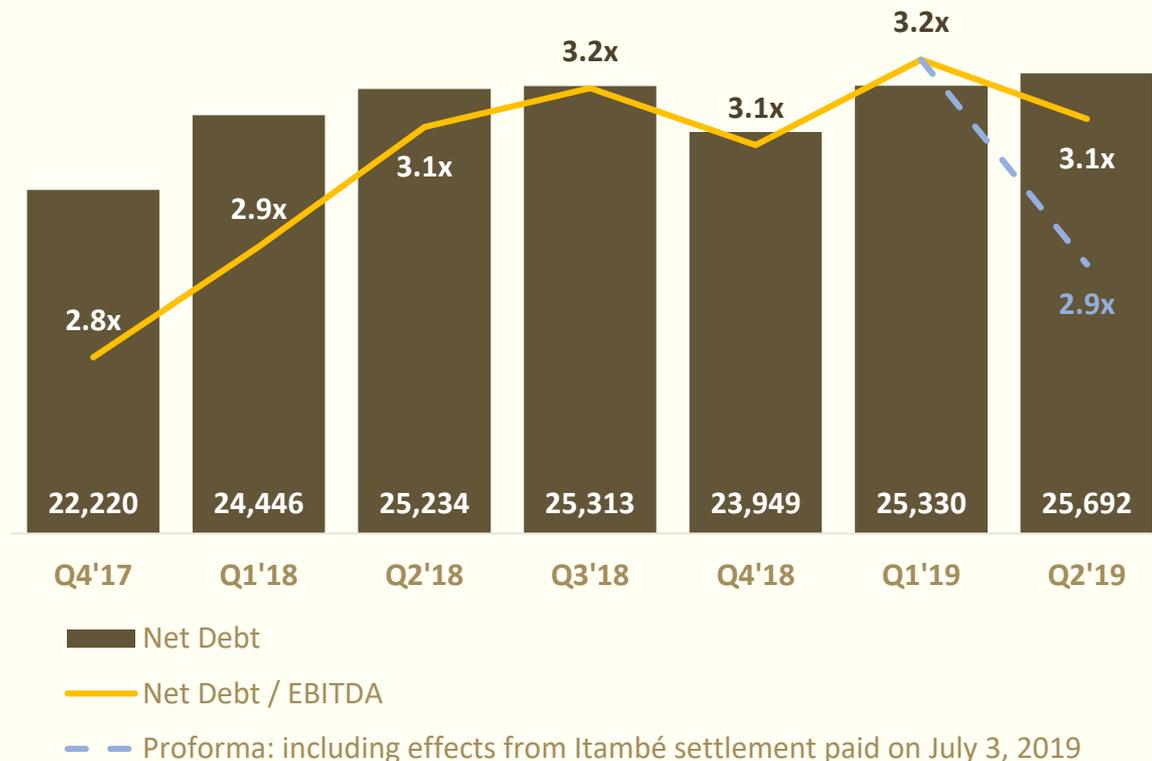
Controlling Net income increased MXN \$165 million in Q2

	As Reported		
<i>MXN\$ (Millions)</i>	Q2'18	Q2'19	Var. %
<b>Operating Income</b>	<b>1,311</b>	<b>1,452</b>	<b>10.8%</b>
Financing Expenses	597	677	13.5%
<b>Net Income Before Taxes</b>	<b>714</b>	<b>789</b>	<b>10.5%</b>
% NS	3.8%	4.2%	
Taxes	314	253	(19.5%)
Effective Tax Rate	44.0%	32.1%	
<b>Net Income</b>	<b>400</b>	<b>536</b>	<b>34.0%</b>
% NS	2.1%	2.8%	
<b>Controlling Net Income</b>	<b>371</b>	<b>536</b>	<b>44.6%</b>
% NS	2.0%	2.8%	

- Operating Income growing 10.8%
- Financing Expenses affected by IFRS 16 and the increase of Mexico interest rate
- Optimized Effective Tax Rate decreased to 32.1%
- +44.6% YOY Controlling Net Income growth

# Leverage Ratio

Deleverage in line with plan to achieve <2.5x target by 2020



(1) Proforma: including Itambé settlement paid on July 3, 2019



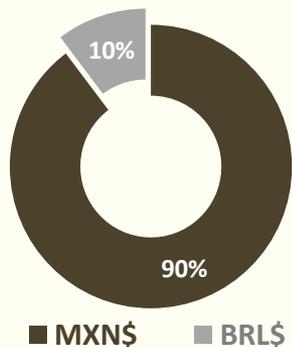
# Total Debt as of June 30, 2019

Net Debt / EBITDA: 3.1x ratio sequential improvement  
Proforma of 2.9x including effects from Itambé settlement paid on July 3, 2019

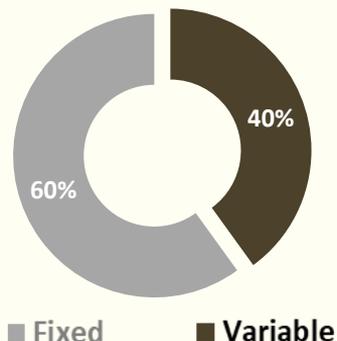
Total Debt: MXN \$27,470 million

	Mexico	Brazil
Average Tenor	4.2 years	0.6 years
Average Cost	TIEE + 0.6%	CDI + 0.5%

CURRENCY MIX (%)



RATE MIX (%)



MATURITY MIX (%)



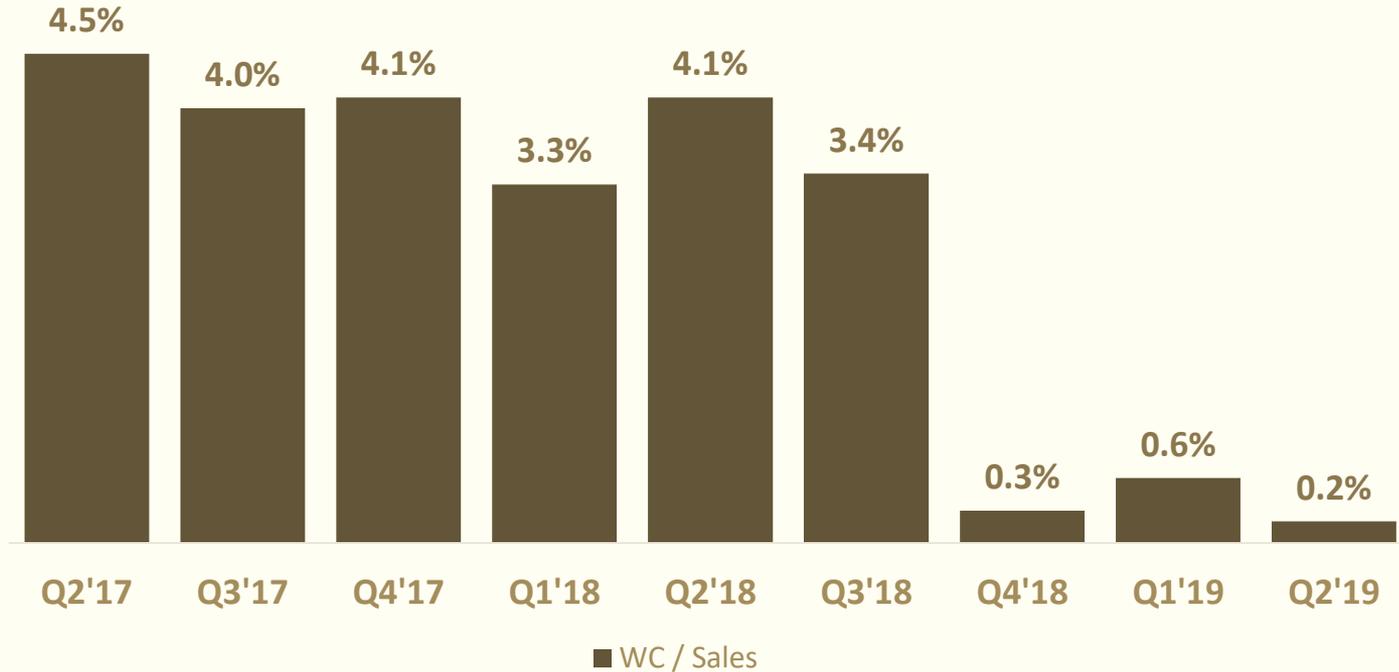
# Working Capital - Consolidated

-290 bps YOY working capital improvement



# Working Capital - Mexico

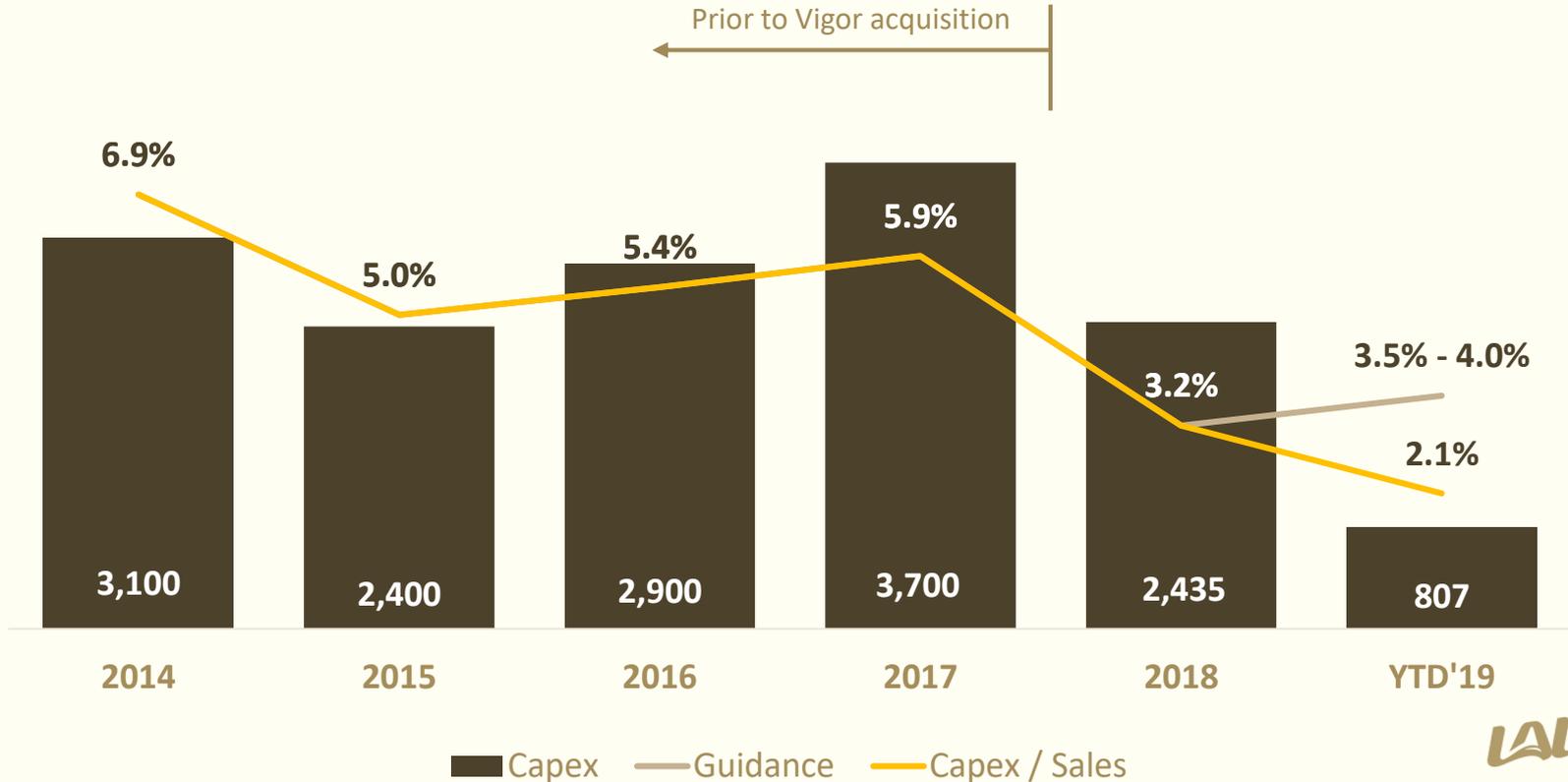
-390 bps YOY working capital improvement: 0.2% of sales



# CAPEX

## Capex optimization based on ROIC analysis

MXN in millions



# Closing Remarks

---

1. **3.3% YOY topline<sup>(1)</sup> in constant currency, growth driven by +3.9% from Mexico**
2. **Performance in Brazil mitigating adverse effect of input milk cost; anticipating price increase vs. competition**
3. **Mexico innovation driving growth: 5.5% of total sales**
4. **Productivity of MXN \$988m YTD reinvested in fueling growth**
5. **Highest margin<sup>(1)</sup> in the last 6 quarters**
6. **+130bps YOY EBITDA<sup>(1)</sup> margin expansion**
7. **-290bps YOY working capital improvement**
8. **Leverage ratio improvement to 3.1x (*pro forma of 2.9x including effects from Itambé settlement*)**
9. **Controlling net income growth of +44.6% YOY**



(1) Q2'18 comparable figures, include IFRS 16 and the deconsolidation of Elopak JV

# LALA Day 2019

Mark your calendar

- Torreón, Coahuila, Mexico
  
- September 23 & 24, 2019
  - 3pm – Dairy farm and market visits
  - 8pm – Welcome dinner with LALA team
  
- September 24, 2019: 9am – 5pm
  - Management presentation
  - UHT Plant and Innovation Center visits





**Thank you!**



**For more information:**

David González Peláez

Elisa Manzato

Elías Rangel

+52 (55) 9177 5900

[investor.relations@grupolala.com](mailto:investor.relations@grupolala.com)

[www.lala.com.mx](http://www.lala.com.mx)