# Third Quarter 2020
# Earnings Results Conference Call

October 20, 2020

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# Agenda

1. Strategic Priorities
2. Third Quarter Highlights
3. Highlights by Region
4. Financial Results

# Key points of differentiation in the current environment

- Ironclad brand loyalty, resilient core consumer staples business, broad product portfolio
- Ability to quickly adapt to address fluctuating demand and changes in consumer habits
- Access to all channels captures dynamic consumer trends
- Strong and resilient farm to point-of-sale supply chain guarantees product availability
- Highest safety standards protect employees, clients and consumers
- Flexibility and strong positioning to protect margins and financial liquidity

# Maintaining Sound COVID-19 Measures

Priorities to ensure safety, uninterrupted operation and risk mitigation

1. **Employee, supplier and client safety**

2. **Guarantee food safety**

3. **Supply chain continuity and risk mitigation**

4. **Financial liquidity**
   - Mexico margin expansion in line with plan
   - Reduced WC-related debt in Mexico
   - Extended debt maturities via refinancing

5. **Plus aid to affected communities**
   - Assisted 640,000 persons in 80 cities throughout Mexico
   - Food donated to local communities in Brazil, the US and CAM

# Progress Against Strategic Priorities - Mexico

## Solid improvement

1. **Stabilized Mexico operation**
   - ✓Right-sizing and operational restructuring
   - ✓Streamlined demand planning
   - ✓Portfolio optimization

2. **Recovered profitability**
   - ✓OPEX reduction
   - ✓Product profitability

3. **Strategy continuity**
   - ✓Focus on profit-driven innovation
   - ✓Leveraging prior investments

# Third Quarter 2020 Highlights

1. **+10.8% YOY constant currency Branded Sales[1] growth driven by Mexico and Brazil**
2. **11.2% normalized[2] consolidated EBITDA margin, +110 bps sequential improvement**
3. **13.7% normalized[2] EBITDA margin in Mexico, +160 bps YOY expansion**
4. **MXN $640m of normalized[2] Net Income, in line YOY (Q3'19 includes Brazil one-time benefit)**
5. **Historical minimum consolidated WC of -0.3%, a 190 bps YOY improvement**
6. **Leverage ratio: normalized[2] 3.3x, reported 3.5x**
7. **Extended debt maturity profile by refinancing MXN $4.6bn through local debt issuance**

*(1) Branded Sales exclude raw materials sales*
*(2) Normalized excludes Q3'20 one-time tax effect*

# Third Quarter 2020 Highlights by Region

# Mexico (1/2)

## Volume-driven topline growth

### Resilient business model

- 10.1% YOY branded sales[(1)]
  - Both traditional and Big Box channels supporting solid performance
  - Continued patterns in consumer behaviors - consumers seek out quality and value
    - Solid performance of both *LALA* and *Nutri* brands
  - Supply chain flexibility: helping capture additional demand
  - Price increase executed within both channels to pass through cost inflation
  - *Tiendita Cerca* initiative supports Traditional channel



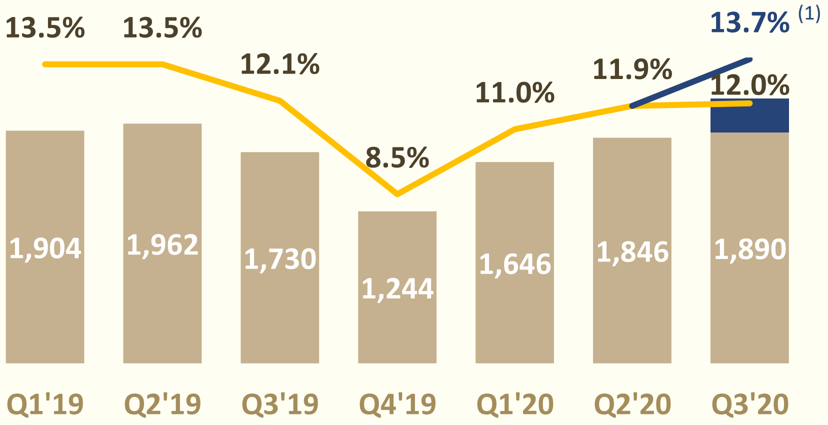
(1) *Branded Sales exclude raw materials sales*

# Mexico (2/2)

## Continue executing on margin recovery strategy

### Additional progress during the quarter

- 13.7% normalized(1) EBITDA margin, 160 bps YOY expansion
  - 12.0% reported EBITDA affected by tax amendment one-off
- +180 bps normalized(1) sequential margin improvement
  - Product profitability in line with category objectives
  - Reaping results from Q1 and Q2 strategic action steps




(1) *Normalized excludes Q3'20 one-time tax effect*

# Brazil (1/2)

## Growth driven by volume and price

### At-home consumption and Cheese driving sales

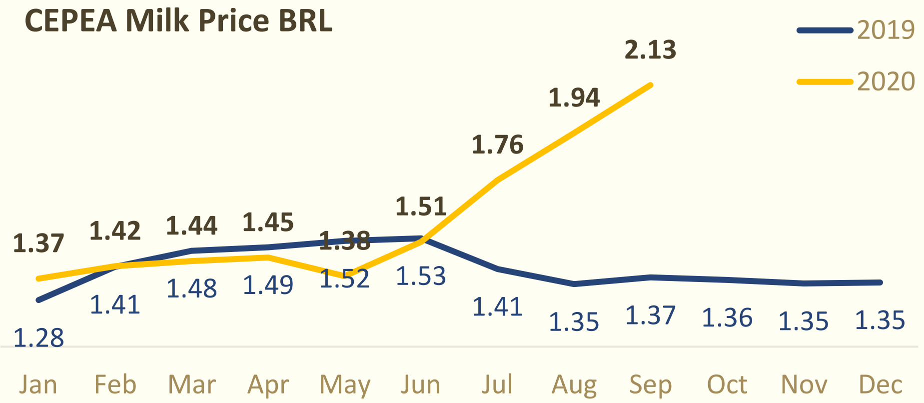
- +25.5% YOY BRL sales
  - Consumer sales growth due to increased at-home consumption
    - Favorable impact on *Requeijão*, Specialty Cheeses, Spreads, Milk and Large Pack Yogurts
    - *Corona-voucher* benefited consumption
  - Food Service slowly recovering as economy reopens
    - Client development and uninterrupted service drove Vigor's above-average upturn
  - Additional Parmesan Cheese capacity driving double-digit category growth


# Brazil (2/2)

## Increasing commodity costs and BRL devaluation pressure margins

### Continued margin pressure

- 5.1% EBITDA margin
  - Milk cost increased +41% YOY
  - BRL 28% depreciation affected price of soybean oil +38%




### Progress strengthening margins

- Price increases implemented in Q1’20 and Q3’20 quarter’s end
- Commercial process improvements reduced returns and space rental expenditures

### Continued focus on action plan

- Distribution improvements to expand into white spaces
- Additional Mature Cheese available in coming quarters
- Production increase to expand Food Service portfolio

# United States

## Low demand and operational problems affected profitability

### Sales impacted by COVID-19

- -10.9% YOY USD Net Sales
  - Lockdown guidelines and slow recovery of consumer confidence, reduced on-the-go and Food Service sales
  - Yogurt sales loss due to production halt
  - Sustained growth of Promised Land, Lala Crema and Lala UHT products with benefit of increased at-home consumption

- -2.1% EBITDA Margin
  - Production halt impacted profitability due to lost sales and additional expenses to re-activate production

# Central America

## Sustaining EBITDA breakeven

**COVID-19 sales deceleration**

- 2.1% YOY USD in Nicaragua and Guatemala
  - Region continues to be affected by economic contraction
  - Milk growth compensates Yogurt and Ice-cream
  - Sour Cream launched to strengthen *Nutri* brand

- 0.8% EBITDA margin, 50 bps YOY increase

# Financial Results

# Q3'20 Net Sales by Region

## Sales growth driven by volume

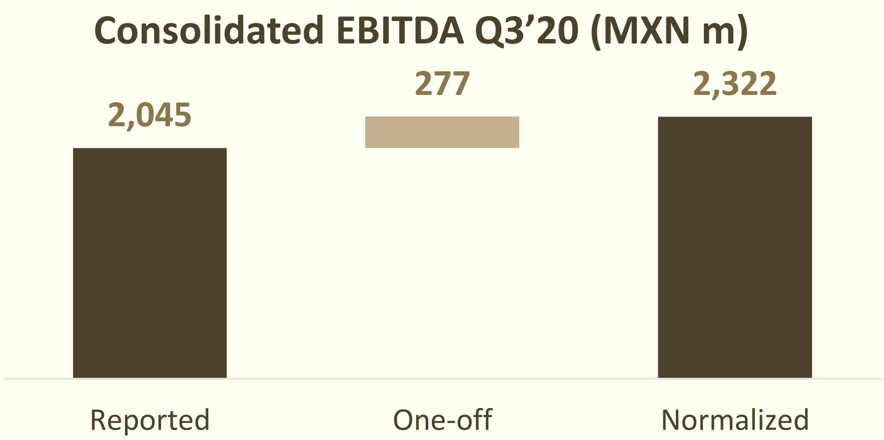
| MXN$ in millions | Q3'19 | Q3'20 | Var. % | constant currency(1) Var. % |
|---|---|---|---|---|
| **Mexico** | 14,057 | 15,476 | 10.1% | 10.1% |
| **Brazil** | 3,089 | 3,250 | 5.2% | 25.5% |
| **United States** | 860 | 872 | 1.4% | (10.9%) |
| **Central America** | 717 | 838 | 16.8% | 2.1% |
| **Total Branded Sales** | **18,723** | **20,436** | **9.1%** | **10.8%** |
| Raw Materials and Others | 261 | 289 | 10.9% | 10.9% |
| **Total Sales** | **18,984** | **20,725** | **9.2%** | **10.8%** |

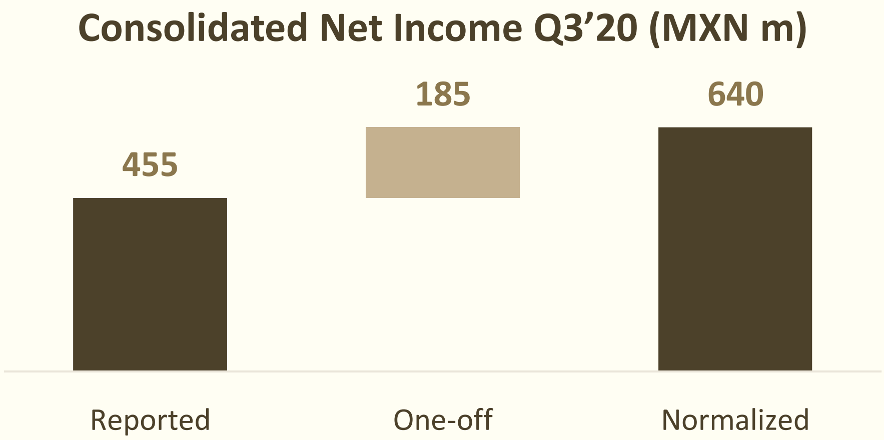
*(1) Constant currency uses constant BRL for Brazil and USD for the US and CAM*

# One-off Item

## Impacts EBITDA and Net Income

- **Tax expense in Mexico**
  - Outcome of 2013 and 2014 tax audits



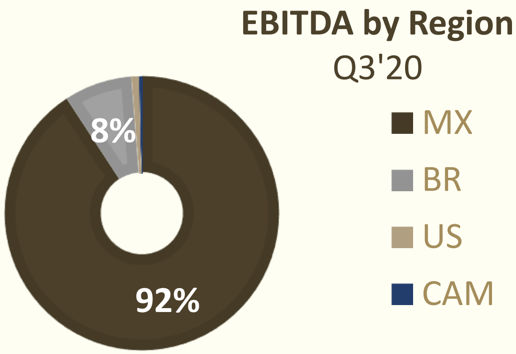



# Q3'20 EBITDA by Region

## Recovery of Mexico margins and continued strategy to improve ROIC

| | | | Reported | | | Normalized(1) | | |
|---|---|---|---|---|---|---|---|---|
| **MXN$ in millions** | **Q3'19** | **% NS** | **Q3'20** | **% NS** | **Var. bps** | **Q3'20** | **% NS** | **Var. bps** |
| **Mexico** | 1,730 | 12.1% | 1,890 | 12.0% | (10) | 2,167 | 13.7% | 160 |
| **Brazil** | 547 | 17.7% | 166 | 5.1% | (1,260) | 166 | 5.1% | (1,260) |
| **United States** | 27 | 3.2% | (19) | (2.1%) | (530) | (19) | (2.1%) | (530) |
| **Central America** | 2 | 0.3% | 7 | 0.8% | 50 | 7 | 0.8% | 50 |
| **Total EBITDA** | **2,306** | **12.1%** | **2,045** | **9.9%** | **(220)** | **2,322** | **11.2%** | **(90)** |

Brazil Q3'19 includes settlement benefit




*(1) Normalized excludes Q3'20 one-time tax effect*

# Q3'20 Consolidated Net Income

## One-offs impacting bottom-line

| | | Reported | | Normalized[1] | |
|---|---|---|---|---|---|
| ***MXN$ (Millions)*** | **Q3'19** | **Q3'20** | **Var. %** | **Q3'20** | **Var. %** |
| **Operating Income** | **1,507** | **1,281** | **(15.0%)** | **1,557** | **3.3%** |
| Financing Expenses | 600 | 607 | 1.2% | 607 | 1.2% |
| Results of associated companies | 15 | 6 | (59.7%) | 6 | (59.7%) |
| **Net Income Before Taxes** | **923** | **680** | **(26.3%)** | **957** | **3.7%** |
| % NS | 4.9% | 3.3% | | 4.6% | |
| Taxes | 282 | 225 | (20.3%) | 316 | 12.2% |
| Effective Tax Rate | 30.6% | 33.1% | | 33.1% | |
| **Net Income** | **641** | **455** | (28.9%) | **640** | 0.0% |
| **% NS** | **3.4%** | **2.2%** | | **3.1%** | |

Q3’19 includes settlement benefit

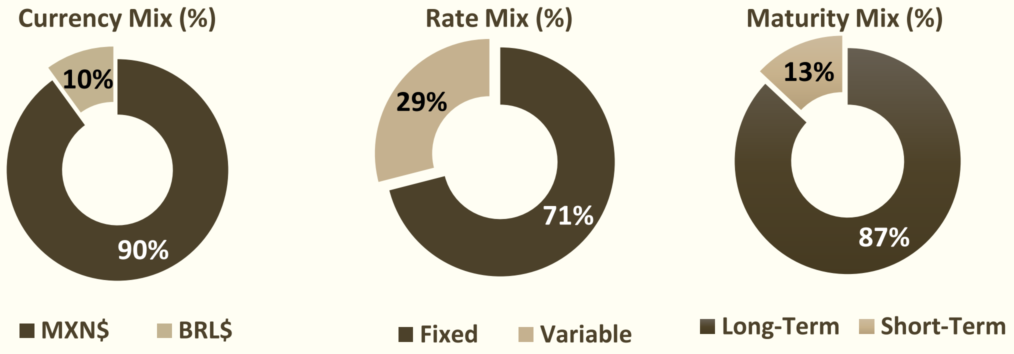
*(1) Normalized excludes Q3’20 one-time tax effect*

# Total Debt as of September 30, 2020

## Healthy long-term maturity profile

| | Q3'20 | |
|---|---|---|
| | **Mexico** | **Brazil** |
| Total Debt | $30,468 | |
| **Net Debt / EBITDA** | **3.5x** | |
| **Net Debt / EBITDA normalized[1]** | **3.3x** | |
| Average Duration | 4.7 years | 1.2 years |
| Average Cost of Debt | TIIE + 2.16% | CDI + 1.55% |
| **Weighted Cost of Debt** | **6.38%** | |

**Debt Profile**



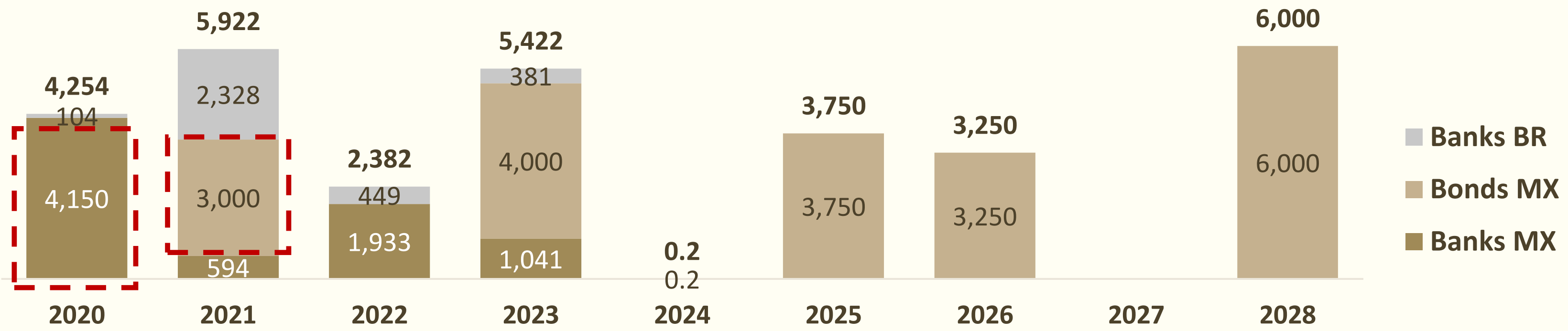

- Issued MXN $4.6 Bn to refinance short-term maturities
- Reduced short-term loans in Mexico due to reduced risk and proven business resilience
- Lower weighted cost of debt: 6.38% vs 8.16% at year-end 2019

*(1) Normalized excludes Q3'20 one-time tax effect*

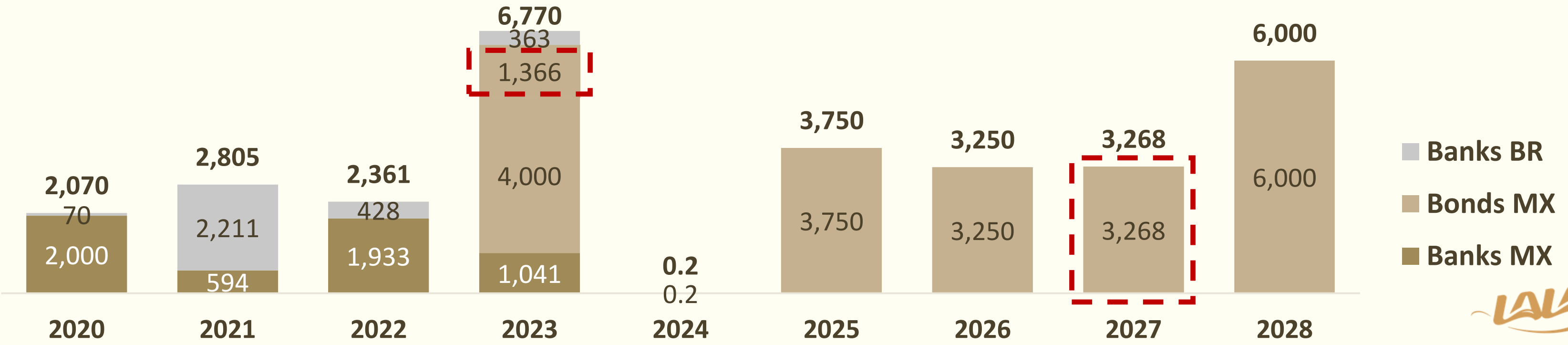
# Refinancing Mexico Debt

## Liability management to extend maturity profile, improve liquidity and lower costs

**Previous maturity profile** *MXN in millions*



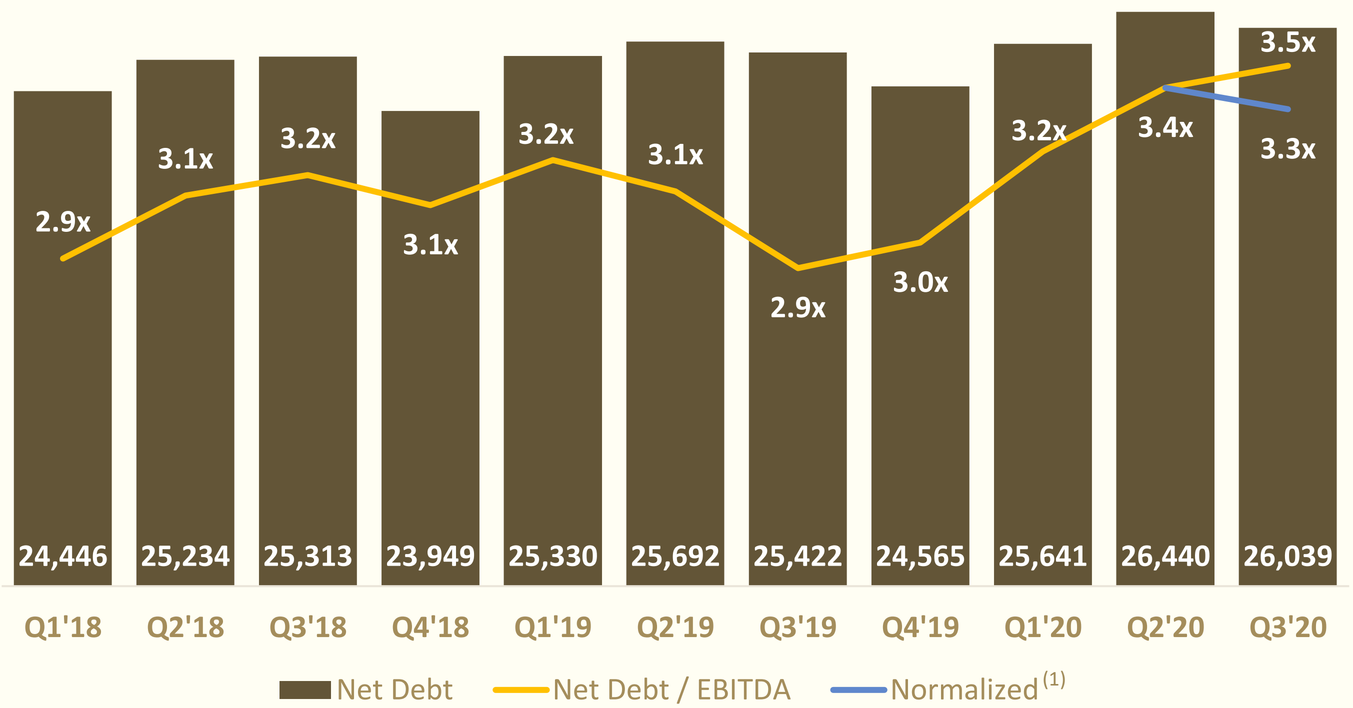

**Current maturity profile** *MXN in millions*




*(1) Outstanding balance*

# Leverage Ratio

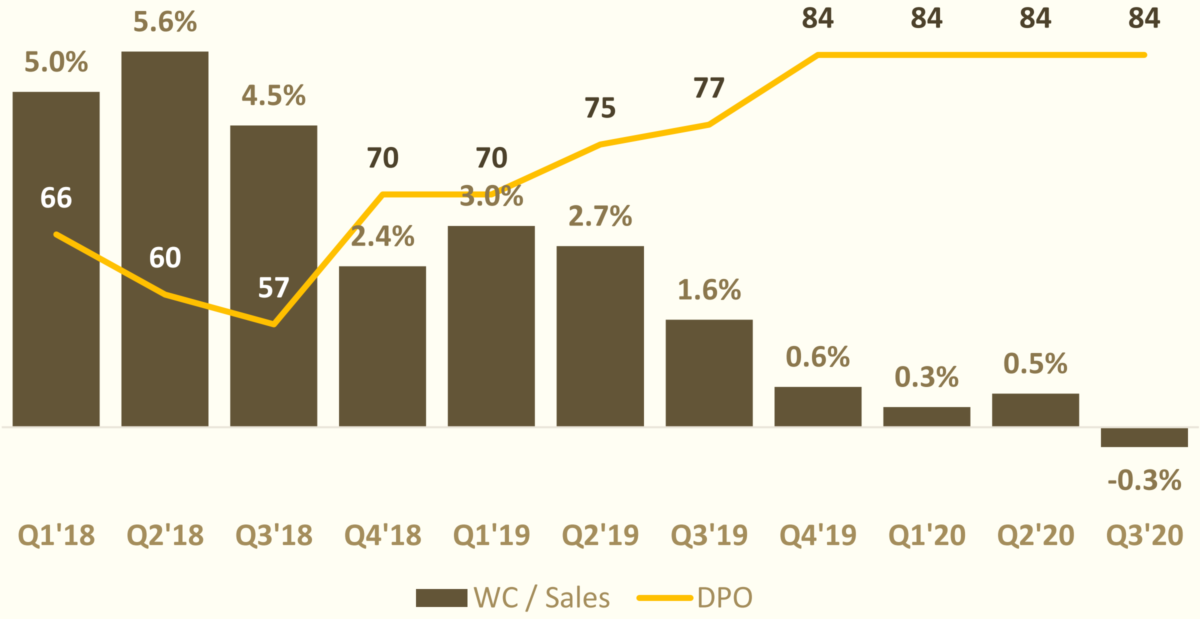
## Leverage target of 2.5x




*(1) Normalized excludes Q3'20 one-time tax effect*

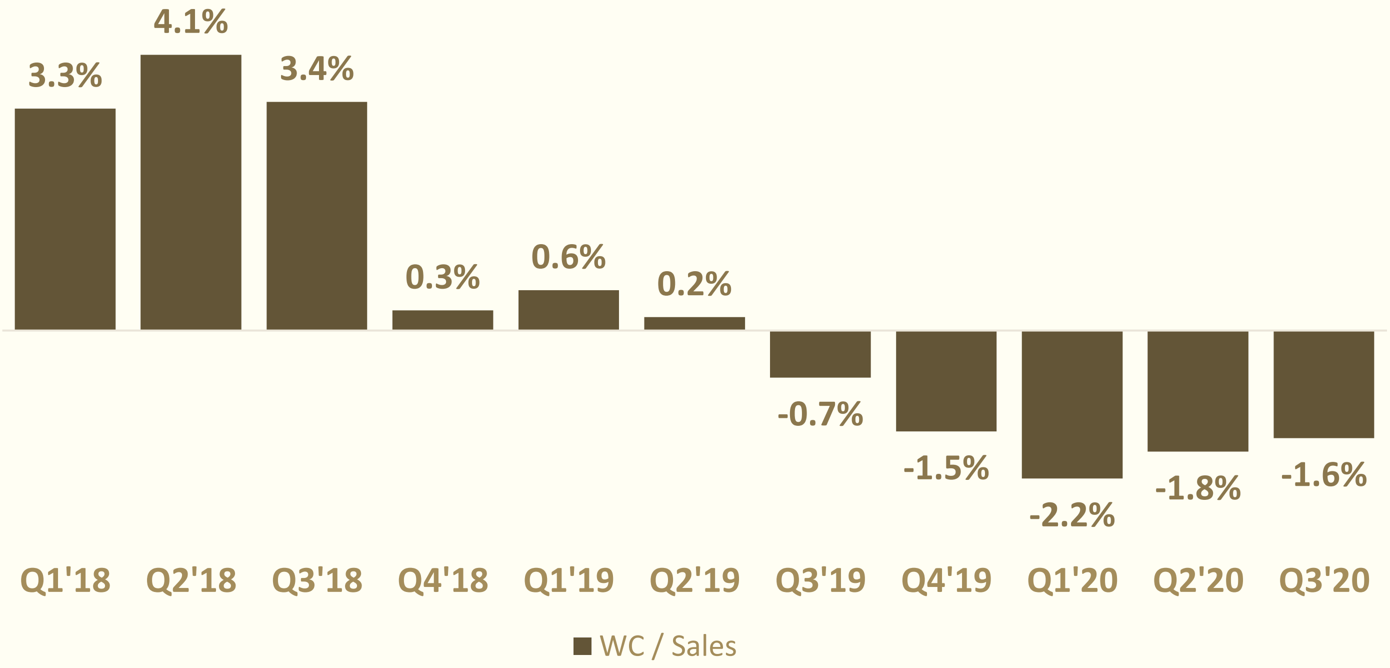
# Working Capital - Consolidated

## Consolidated negative Working Capital



# Working Capital - Mexico

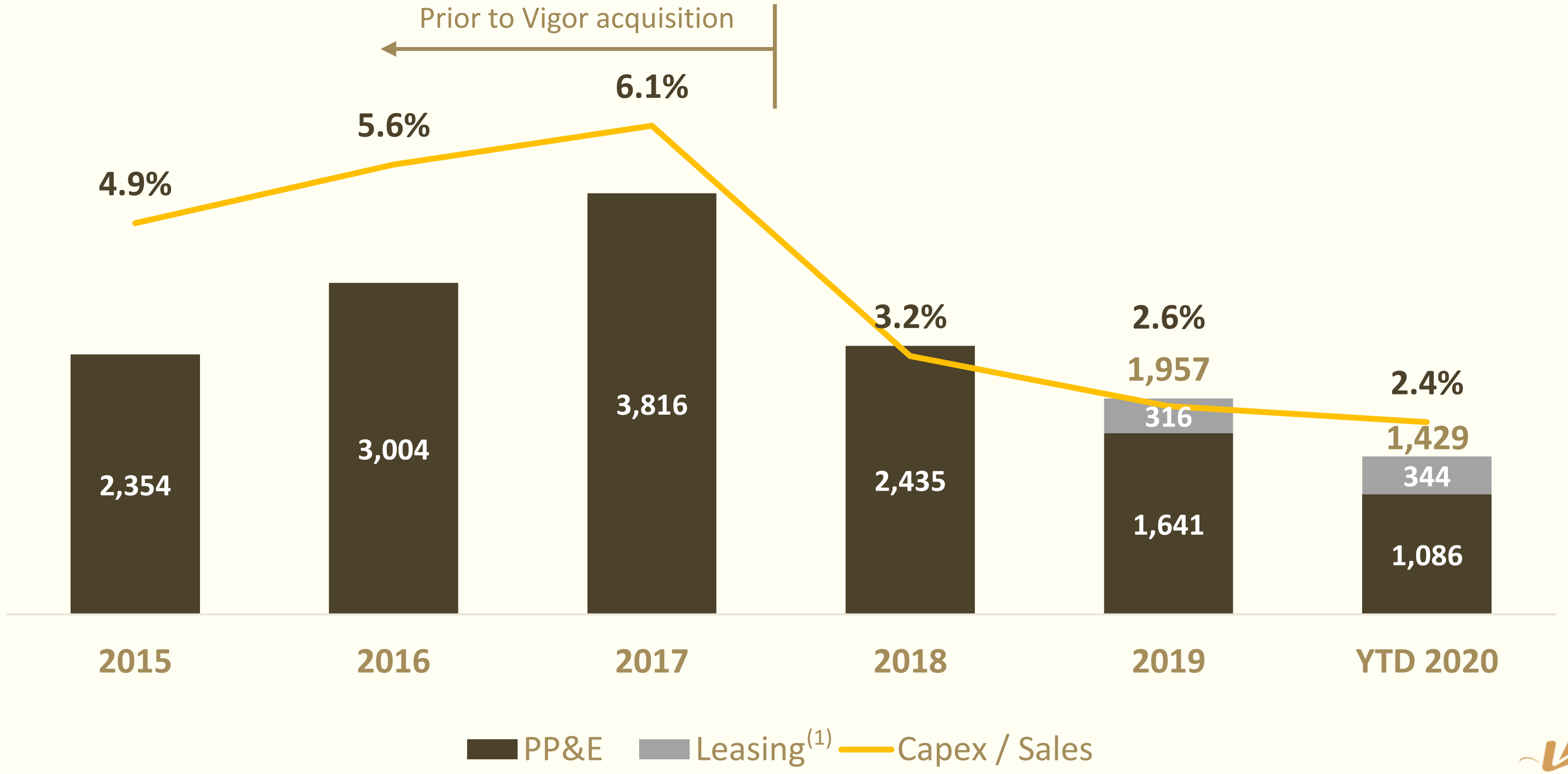
## Negative Working Capital



# CAPEX

## Capex optimization based on ROIC analysis

*MXN in millions*




*(1) Leasing includes vehicles, machinery and equipment*

# Closing Remarks

1. **Focus on increasing ROIC, Profitable Growth and Core Markets**
2. **Resilience sustained by strong brand loyalty, broad portfolio, robust supply chain and adaptability to capture changing consumer preferences**
3. **+10.8% YOY constant currency Branded Sales[(1)] growth driven by Mexico and Brazil**
4. **Solid EBITDA expansion in Mexico**
5. **Consolidated Negative WC accomplishment to -0.3% of sales, driven by negative WC in Mexico and improvements in all regions**
6. **Successful refinancing reflects investor confidence and enhances financial flexibility**

*(1) Branded Sales exclude raw materials sales*

# Thank you!


**For more information:**
David González Peláez
Israel Rentería, CFA
+52 (55) 5078 4039
investor.relations@grupolala.com
www.lala.com.mx