

Grupo Bafar 3Q24 - Earnings Call

Coordinator: Good morning everyone. My name is Leonor and I will be the one to coordinate this call. I warmly welcome you to the BAFAR Group's quarterly conference for the third quarter of 2024.

I want to inform you that all participants are muted to avoid any background interference. After the speakers' presentations, we will have a Q&A session, at which time we will provide them with instructions on how to participate. I am pleased to inform you that on Tuesday, October 28, Grupo BAFAR published its results.

If any of you have not received the report, I encourage you to contact the investor relations team, who will be happy to send you the information. I want to emphasize that this call is intended exclusively for investors and analysts, so no press questions will be taken and the call should not be reported in the media. It is important to note that any forward-looking statements made during this quarterly call are based on information available at this time.

We suggest you review the statement in the quarterly report for more details on this issue. At this time, we have the presence of Luis Eduardo Ramírez, Director of Finance and Administration of Grupo BAFAR, and Luis Carlos Piñón, Corporate Controller of Grupo BAFAR, who will share the company's results. Without further ado, I give the floor to Luis Eduardo and Luis Carlos.

Go ahead. Good morning to everyone and we thank you for your presence at today's conference and your interest in Grupo BAFAR. Thanks a lot.

Luis Eduardo Ramírez, CFO: This quarter was characterized by growing uncertainty in the markets and volatility in the exchange rate, caused, among other things, by the change of government in Mexico and the package of reforms approved by Congress. In addition to this, we anticipate that volatility will continue due to the upcoming elections in our neighboring country to the United States. This situation has led to an increase in the prices of raw materials, also causing an increase in our production costs.

However, we have taken some steps to mitigate these risks, making strategic purchases that ensure our profitability and continuity. Among the good news, the Bank of Mexico and the Federal Reserve have cut their interest rates, which benefits our financing costs. In the face of these challenges and opportunities, we are ready to move forward and take advantage of the current circumstances.

This period we recorded an 8% increase in revenues and 14% in EBITDA compared to the third quarter of 2023, once again strengthening our position in the market. In the food division, we are focused on driving the growth of our market share in the United States and increasing the mix of value-added products. This positively impacted our net sales, achieving an increase of 13.9%. The real estate division reported total revenues of \$331.5 million, which is equivalent to an increase of 26.8% compared to the previous period.

Driven by new contract rents in the financial sector, we also closed the quarter with a record backlog of \$3,668 million and notable revenue growth of 28%. With these figures, we

reaffirm our commitment to sustainable growth and adaptability in a challenging environment, maintaining our optimistic outlook for the end of the year. As far as food is concerned, the volume of sales has shown solid growth.

Compared to the prior year, net sales for the third quarter reached \$6,810 million, representing an increase of 13.9%. This growth is due to a 5.9% increase in sales volume, resulting from a larger market share of value-added products, in addition to significant growth in the United States. We have also seen improvements in our margins thanks to the optimization of our product mix and the reduction of costs in our raw materials. Our EBITDA reached \$809 million, an increase of 23% and a margin on sales of 12%.

During the quarter, we made capital investments of \$857.5 million, focused on projects aimed at increasing our production capacities, as well as the remodeling and construction of new points of sale. This will boost the growth of this division for the coming years. Likewise, we continue to bet on our digitalization strategy in the search to modernize our processes and optimize operational efficiency.

Finally, at the end of the third quarter, net bank debt stood at \$5,756 million, with a net debt to EBITDA ratio of 1.8 times. In the real estate division Fibra Nova, in the third quarter we achieved revenues that exceeded \$331 million. Over the last 12 months, we have achieved total revenues of \$1,216 million, which represents a growth of 15.8% in relation to the \$1,050 million reported at the end of fiscal year 2023.

In addition, EBITDA stood at \$300 million, growing 28% compared to the same period of the previous year and maintaining a margin of more than 90%. Free Flow of Operation, or FFO, also showed an increase of 22%, with a margin of 92%. During this quarter, we carried out the issuance of just over \$132 million of certificates, which allowed us to raise \$3,451 million.

These resources were used to restructure bank liabilities and finance the development of new industrial warehouses. As a result, bank debt at the end of the quarter was \$5,003 million pesos, with a leverage ratio of 23%. The restructuring of the debt allowed us to significantly reduce the cost of financing.

Regarding the financial division, during the quarter we reached a record figure, as mentioned in our placement and portfolio, closing at \$3,668 million. This achievement is the result of our commercial strategy focused on offering liquidity solutions to SMEs and suppliers.

In terms of revenues, we recorded \$314 million in the quarter and \$726 million in the year to date, which represents a growth of 28% compared to the third quarter of 2023 and 19% compared to September of the previous year. Operating income grew 11% to \$67 million. Despite the accelerated growth, we managed to reduce the delinquency rate to 1.4%, thanks to new processes in credit analysis and constant monitoring of our clients.

Finally, we stabilized the backend systems of our new B-Catch product and expanded the pilot to five more cities, with plans for a national launch in the first quarter of next year. The group's results for the quarter, consolidated net sales reached \$7,115 million, a growth of 14.8% compared to the third quarter of 2023. This increase is due to an increase, as I

mentioned, mainly in food of 5.9% in sales volume and growth in value-added products, as well as significant growth in our international division or exports.

Cost of sales was recorded at \$4,959 million, representing an increase of 16.4% compared to the previous year. However, we maintain a stable level in our operations, with gross profit showing an increase of 11.3%. Operating expenses amounted to \$1,305 million, which represents an increase of only 1.3% in relation to revenue. On the other hand, operating income experienced a notable increase of 18.4%, reaching a total of \$851 million.

Likewise, EBITDA grew 24.5%, reaching \$1,069 million compared to \$859 million in the same period of the previous year. The EBITDA margin stood at 15%. Regarding our financial situation, working capital, the staff conversion cycle was positioned at 41 days, where portfolio days reached 23 days on average, inventory days at 41 days on average and days of payment to suppliers were at 23 days on average.

This increase in the cash conversion cycle is attributed to an inventory increase of 15.7% compared to the third quarter of 2023, as a result of strategic purchases of raw materials made during the period, mainly to stabilize and ensure cost of sales. Finally, bank debt reached \$16,850 million, of which 83% is in foreign currency, where we have a natural hedge thanks to our income in dollars, which helps us mitigate the risk of exchange. Importantly, in the quarter we refinanced \$43 million of short-term long-term liabilities.

In addition, during the first days of October, another \$88 million dollars were refinanced that were also sent in the long term. This operation provides us with greater flexibility, greater liquidity and, above all, solvency for our medium and long-term strategies. On our expectations for this year, we see a growth in sales of around 11%, an increase in our EBITDA of 18%, an EBITDA margin between 17% and 18% and an estimated CAPEX of \$5,265 million.

And well, with this I conclude my comments. Thank you all very much for listening. Now I'm going to call the operator back for the Q&A session. Thanks a lot.

Coordinator: We will begin with the question and answer session. If you would like to ask a question, please click on the raise button, located at the bottom of the screen.

If you are connected by phone, please dial asterisk 9. I remind you that all lines are muted. When it's your turn to ask, your microphone will be enabled and you can unmute yourself to ask your question. We will pause for questions.

Our first question comes from Martín Lara. Please give your full name and company name before asking.

Martín Lara: How are you? Good morning, Martín Lara from Miranda Global Research.

Congratulations on the results. I have several questions. Do you think that the export volume of the food business will be maintained in the fourth quarter or was it an extraordinary volume in this quarter? And the other is, in Mexico the growth in volume also in food was a little lower than in the second quarter. Could you explain this performance to us?

Luis Eduardo Ramírez, CFO: How are you, Martín? It gives me great pleasure to greet you. The same. Look, yes, we do believe that we are going to maintain growth in volume and sales of export states, both in this quarter and in the coming years.

Accompanied by two things fundamentally, the strategy, a strategy where we are putting a lot of emphasis on growing, especially in the United States, both in our consumer products channel and in our own stores. And well, yes, I can tell you that we continue to think and with what we are currently executing and with the plan we have for, as I said, for the next 24, 36 months, that we are going to continue to see very relevant growth in exports internationally. And well, in Mexico we did have the exchange rate, even though we were a little ahead of the curve and secured a lot of raw materials.

With that, our cost of sales was not as affected as in some other industries or other food companies. But it certainly had an impact on consumption. I can tell you what general consumption, right? So even so, well, our volume did grow against the previous year and we believe that it is already in some way discounted where we are going to stabilize or stabilize consumption for the coming months.

Undoubtedly, now with the election of the United States, we do see that in any case there will be a little uncertainty between now and the end of the year, maybe even the first month of 2025. But well, we believe that it will no longer have the impact that we had these last three, four weeks with a really sensible devaluation.

Martín Lara: Ok, thank you very much and one last question, how much was the percentage of certificates you have from Fibra Nova?

Luis Eduardo Ramírez, CFO: It was around 76.77 percent.

Martín Lara: Perfect. Well, thank you very much.

Luis Eduardo Ramírez, CFO: You're welcome, Martín.

Coordinator: Our next question comes from Andrés González. Please give the name of your company before asking.

Andrés González: Hello, how are you? Good morning. I'm Andres from Apalache Research. Thank you very much for the call and congratulations on the results.

I have two questions. The first would be about whether they are planning new alliances or acquisitions to strengthen their presence in the U.S. market. And second, what is your expectation in terms of volume and revenue over the agreements with Costco and 7-Eleven?

Luis Eduardo Ramírez, CFO: How are you, Andrés? I am very pleased to greet you.

Look, yes, right now in the United States we are, as I also told Martín, executing an organic strategy that comes, well, in distributing and serving much more Hispanic self-service, in increasing our presence of points of sale or own stores in the border strip, in sending more

value-added products made in Mexico and marketed in our own stores. But, without a doubt, we are still analyzing right now. We have had some prospects, this one, today, well, they are still here in the pipeline and we are, therefore, in that process of analysis.

As you well know, well, any acquisition or alliance, well, it takes a while, right? And with certain complications due to the same process. We would like us to be able to specify something in time. We are not in any of this right now so that they will close in the next three, six months.

But, well, we do believe that we are here with the pertinent analyses of several alternatives and hopefully some of them could materialize in time. So, maybe I didn't want to redundant, but we are looking at the possibility of making some acquisitions and, well, we are working on it, right? Regardless, we continue to execute on our organic plan to continue growing in the United States. And, well, look, the Costco and 7-Eleven, well, we see it, they are two totally different formats.

One of convenience and one, well, more high-end, because we can no longer call it a superprice. Really Costco has a very different model. We in both of them, are our customers, in both we continue to push to establish new products with much more added value, I don't know, practicality in 7-Eleven, speed and availability and well, and in Costco, well, price, let's say, so a price-benefit ratio, right?, for Costco's end consumers. I believe that volumes in these two formats will continue to increase and we want to continue to be an important supplier for them. So, we do see that, over time, without a doubt, they will continue to grow and hopefully we will be there with them, right?

Andrés Gonzáles: Perfect, thank you very much and congratulations again.

Luis Eduardo Ramírez, CFO: No, man, thank you, Andrés.

Coordinator: We will pause to wait for additional questions. We haven't received any additional questions, so that concludes our Q&A session. Thanks a lot. I would like to give the floor to Luis Eduardo Ramírez for his concluding remarks.

Luis Eduardo Ramírez, CFO: Thank you very much, well, nothing, just thank you all for joining us today. You can sign us up if you have any additional questions and, well, we appreciate your interest in Grupo BAFAR and we look forward to talking to you soon. Come on, a good day and thank you very much.

Coordinator: That concludes the quarterly call.