Grupo Bafar 4Q24 - Earnings Call

Operator: 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 fourth 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, February 18, 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 Carlos Piñón, corporate controller of Grupo BAFAR, who will share the company's results. Without further ado, I give the floor to Luis Carlos. Go ahead.

Luis Carlos Piñón, Comptroller: Hello, good morning everyone. We appreciate your presence at today's conference and your interest in BAFAR Group. Well, this 2024 was a year of changes and challenges, but also of growth for Grupo BAFAR.

We are adapting to a dynamic economic environment driven by the downward trend in benchmark rates and a reduction in inflation. For us, this year presented important achievements and strategic consolidation. Modernization and digitalization efforts began to bear fruit, strengthening our business units and generating solid growth.

We reached revenues of just over 28,491 million pesos. This was 11% more than the previous year. We also improved our operating efficiency with an operating profit of 4,354 million, showing a growth of 17% and an EBITDA that grew by 18%, reaching 5,207 million pesos.

These results reflect our commitment to profitability and continuous improvement, closing the year with a net profit of 2,051 million and a stronger company than ever. In 2024 we are making strong progress in our digital transformation. We formalized a strategic alliance with Google Cloud and Salesforce, with which we strengthen the digitalization strategy that we began a few semesters ago.

In the Retail sector, we implemented smart stores in most of our branches and digitized our plant in several production lines, adding to many other processes that we had already been automating in the past periods. We continue to increase our presence in the value-added products market with the Parma and Sabori brands, while consolidating our leadership in the frozen and hamburger segment. Our financial results reflect this growth.

Consolidated sales reached 27,268 million pesos, 11% more than the previous year, while operating profit grew just over 16%, closing at 2,289 million. While EBITDA increased by 21%, reaching 3,290 million, with a margin of 12%. With this, we reinforce our expansion with investments of just over 2,000 million pesos focused on the automation of our value-added products.

Increase in production capacities and new openings of CarneMart stores. As for net debt, we closed the year with 5,859 million pesos for the food division. As you can see, solid growth in the group's largest division.

On the other hand, regarding Fibra Nova's results, we closed the year with a portfolio composed of 123 properties and a total of 662,206 m2 of gross leasable area, in addition to the 2,118 hectares of our agro-industrial portfolio. Fibra Nova's total revenues in the year reached 1,288 million pesos, a growth of 23% compared to 2023, driven by new leases and a more favorable exchange rate. While EBITDA increased by 25%, reaching 1,203 million pesos with a margin of more than 90%.

We made investments of just over 2,230 million pesos for the construction and development of industrial parks in Chihuahua and Ciudad Juárez. In addition, we reinforced our commitment to sustainable construction by achieving EDGE certification in 16 warehouses, covering more than 163,000 m2 of area certified under the EDGE methodology. Regarding debt, we closed the year with 4,750 million pesos, maintaining our Loan-to-Value leverage ratio at 22%, which is significantly improved compared to the end of the previous year.

These results reflect our financial strength and Fibra Nova's sustained growth in the real estate sector. On the other hand, the financial division in 2024 closed an outstanding year, maintaining the positive trend with solid growth in placement and in the portfolio. These revenues remained increasing and with delinquencies below the industry average, so that at the end of the year the placement reached just over 5,000 million pesos in the portfolio placed, 28% more than in 2023, driven mainly by the placement of business loans.

As a result, annual revenues grew 23% compared to the previous year, totaling 956 million pesos. On the other hand, in the rest of the divisions and already consolidated as Grupo BAFAR, we closed the group's total sales of just over 28,491 million pesos, a growth of 11% compared to 2023. These consolidated results were driven by the expansion of own stores in the food division and a greater share in the self-consumption market in Mexico and the United States, while Fibra Nova and the financial division recorded growth of more than 20%.

For its part, Grupo BAFAR's consolidated gross profit reached 8,920 million pesos, a growth of almost 16% and a gross margin of 31%. While EBITDA presented a very outstanding performance, reaching 5,207 million pesos, with a margin of 18%. Finally, Grupo BAFAR's consolidated net income closed at 2,051 million pesos, with a net margin of 7%.

In summary, these consolidated results during 2024 were marked by expansion and sustained growth in all our business units and, in turn, we maintained the profitability margins that have historically characterized us. On the other hand, regarding the financial

situation of Grupo BAFAR, in terms of working capital, accounts receivable amounted to 1,938 million pesos, which, despite this increase, the average days stood at 24 days, while inventories increased a little more than 31%, reaching 2,382 million pesos. with an average of 42 days of rotation. This increase is due to some strategic purchases of raw materials that we carry out, in response to the rise in some of the prices of commodities.

Accounts payable to suppliers, on the other hand, stood at 1,943 million pesos, with an average of 34 days, improving in 7 days compared to last year. As a result, the cash conversion cycle closed at 34 days, remaining at a level very similar to that cut last year. In terms of investments, we allocated a little more than 4,811 million pesos throughout the group, mainly to the development of Fibra Nova's industrial properties, while in the food division we continue with the expansion of our own stores, remodeling of distribution centers and modernization of stores and plants.

We also reinforced logistics with new distribution routes. These initiatives strengthen our operational capacity to underpin the group's growth over the next 5 years. Next, I will tell you how we see the expectations for 2025.

First, we are estimating to have sales that grow by just over 16%. We estimate that EBITDA growth should be above double digits. We estimate growth of close to 10%.

And we are estimating that EBITDA margins will grow between 16 and 17%. On the other hand, we are estimating to make investments of more than 5 billion pesos, being consistent with the latest investments we have made in past years. That concludes my remarks.

Thank you all for listening. And now I'm going to call the operator back for the Q&A session.

Operator: We will start with the question and answer session. If you would like to ask a question, please click on the raise your hand 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 Carlos Alcaraz. Please give your full name and company name before asking.

Carlos Alcaraz: Hello, how are you, Luis? Good day, Carlos Alcaraz of Appalachia. Thank you very much for the call and congratulations on the results. A couple of questions.

The first, referring to the commodity situation that is being observed in the United States, mainly in chicken. Well, let's see what their expectation is, let's say, for 2025 in terms of sales volume to that market and to the Mexican market. And in line with this first question, it would be my second question, wouldn't it? Regarding your sales projection for 2025, what do you think would be the main drivers to achieve this growth? Would it be a volume issue or a price issue, since there is good absorption in the market? Thank you, Carlos.

Luis Carlos Piñón, Comptroller: Look, yes, with respect to the first question of commodities, as you say, we have seen a significant increase in the costs of, not only chicken, but of some other raw materials that, added to the increase in price, the issue of the exchange rate, as

we have already seen since the fourth quarter of last year and now in 2025, In these first two months, we continue to see this trend of the high exchange rate issue. What we are doing at Grupo Baja primarily is, and we have explained it on other occasions, looking for purchase alternatives in other countries. We are making strong imports of raw materials mainly from Brazil.

So, that has allowed us to continue to maintain our profit margins. Our logistics chain has been adapting for some years now to be able to migrate to markets where the situation gives us the best price. So, the purchasing and logistics capabilities that the group currently has, because when the North American market gets complicated, we can easily migrate to acquisitions in South America.

In the case of what I was asking about growth drivers, we are primarily seeing that growth is leveraged by growth in our own points of sale. It is the avenue that we see that will contribute the largest percentage to growth. The other is that our increase in participation in the retail channel continues to be constant growth.

We are seeing the issue of the modern channel that will continue with the growth that the industry is reporting. However, an important change in the modern channel is that we are seeing the issue of profit margins differently from what we saw in past years. One due to the increase in raw material costs, but also due to the mix of products that we are selling in the modern channel, mainly in products with higher added value, which we hope that the change in the mix will allow us to continue improving our profit margins.

And on the other hand, as you know, we have other divisions that in terms of sales are not very significant, call it Fibra Nova or the financial division or even the agro-industrial division with the sale of walnuts. Although in volume they are not very important, but as every year they increase their participation in our sales pay as a group, they continue to grow and with a profit margin even higher than other business segments may be.

Carlos Alcaraz: Perfect, thank you very much Luis Carlos and congratulations again.

Operator: Our next question comes from Martín Lara. Please give your partner's name before asking.

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

Luis Carlos, thank you very much for the call and congratulations on the results. I have several questions. Why did the volume of food in Mexico fall in the quarter and why did it rise in the United States? What can we expect? And the second is operating expenses fell 3%.

Did this include the property evaluation benefit? Thank you Martín. Look, yes, we saw the volume and well, we've been talking about it in past quarters. The group has a strong interest in continuing to grow its export sales and its presence in other countries.

The change in the mix of products that we saw in the fourth quarter with the strong increase in the exchange rate, plus the change in the mix of some commodities that I was already talking about, had a strong increase in price, made us more competitive in export

sales. So that is why we saw that increase that we did not see in past quarters. More importantly, we had higher sales mainly in the United States and some other countries where we are exporting.

While in Mexico we saw a bit of a contraction in certain channels such as the modern channel, but precisely this mix change generated good profitability. What was your other question, sorry Martín?

Martín Lara: Ah, the operating expenses that fell 3%. Is this because they revalued the properties of Fibra Nova or is it not included there?

Look, we bring several effects, one is, indeed, the revaluation of properties is included, but mainly we bring two effects. We have been having strong efficiencies in the issue of digitalization, the issue of the increase in prices so important in commodities. We practically made efficiencies in terms of expenses that we had to make to offset margins.

That's why you'll see a little bit of efficiency against last year. And the other thing is that we also have some commercial agreements with certain suppliers that precisely by greatly increasing the issue of products of a certain added value, generate certain efficiencies at the level of costs and expenses that on the part of the commercial agreements we have, many of which are transmitted to us by the self-service chains. We also transmit it to our suppliers.

It's basically those three effects. One, the efficiencies due to digitalization in order to maintain margins. The issue that I was already talking about trade agreements.

And the third, the revaluation of properties.

Martín Lara: Ok. And one last one. According to guidance, revenues grow more than EBITDA. In other words, there is a lower EBITDA margin.

Luis Carlos Piñón, Comptroller: Correct. Yes, look, I was talking about it just now. In other words, we see that this year, although there is going to be significant price inflation, we believe that in part due to the increase in raw materials and the issue of the exchange rate, that is going to squeeze our margins. We are seeing that it is going to be a year of lower margins than what we saw in past years, at least in the last two years.

At least that's how we're seeing the beginning of the year right now. We have strong expectations that precisely the divisions that I already mentioned, we are seeing Fibra Nova with a better outlook in this first quarter than we estimated. We are seeing that financial publishing is also growing significantly.

So we believe that the business combination could make this guidance improve in the following months.

Martín Lara: Perfect. Thank you very much, greetings.

Operator: We'll pause for questions. We haven't received any additional questions, so that concludes our Q&A session, thank you very much.

I would like to give the floor to Luis Carlos for his concluding remarks.

Luis Carlos Piñón, Comptroller: Well, thank you very much for joining us for today's conference.

You can write to us if you have any additional questions. We appreciate your interest in Grupo BAFAR and look forward to speaking with you soon. Thank you.

Operator: That concludes the quarterly call. They can disconnect now.