

mabe

Cuando tu hogar funciona,
todo funciona.

CONTROLADORA MABE
2Q20 PRESS RELEASE



RESULTS 2Q20

MABE FOCUSED ON EFFICIENCY AND LIQUIDITY, REPORTS A 26% CONTRACTION IN SALES AND VOLUME, AND AN EBITDA CONTRACTION OF 11.8% IN 2Q20

Mexico City, July 28, 2020 – Controladora Mabe S.A. de C.V. (“Mabe” or “the Company”) reports its results for the second quarter of 2020 (“2Q2020”). The results are expressed in millions of US dollars (US\$ MM) unless stated otherwise. The Financial Statements have been prepared according to the requirements established by IFRS.

Highlights 2Q20

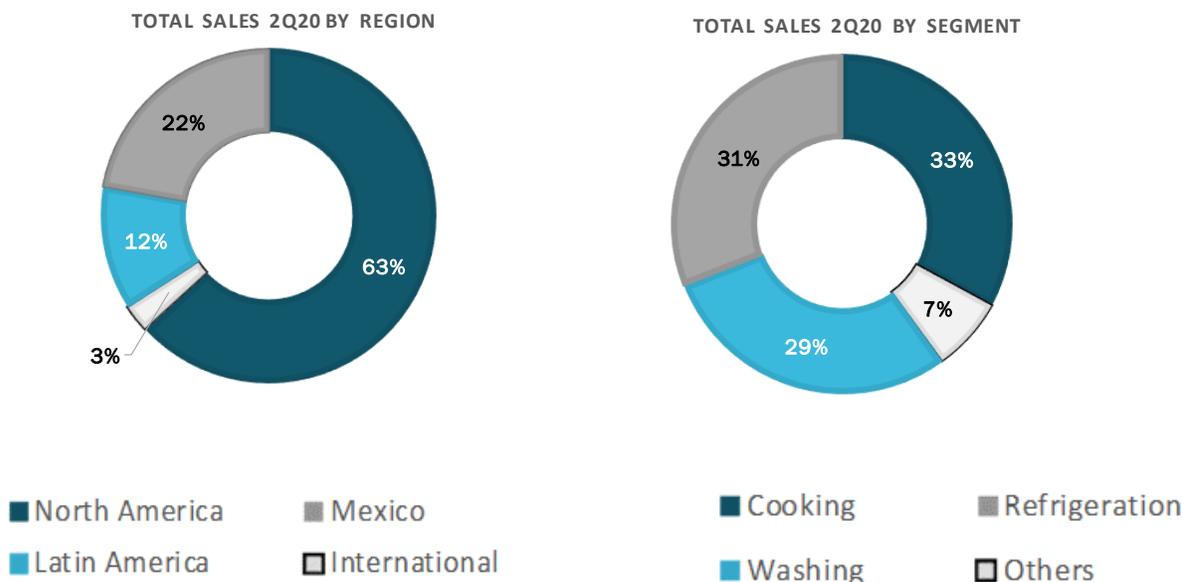
- **Volume and sales** contraction of **26%** vs 2Q19 affected by COVID.
- **Aggressive reduction** in SG&A expenses to mitigate the drop in sales volume, which allowed us to maintain the operating margins
- **EBITDA** contraction of **11.8%** vs. 2Q19
- **EBITDA margin stood at 9.6%** vs 8.0% 2Q19 (160 bps better than 2Q19).
- **Positive Free Cash Flow** for the quarter driven mainly by efficiencies in working capital.
- **Net debt** had an improvement of **US\$88 MM**. We reduced the debt by **13%** from **US\$686 MM** in 2Q19 to **US\$598 MM** in 2Q20

| CONCEPT | 2Q20 | 2Q19 | Δ VS 2019 |
|------------------------|-------|-------|-----------|
| Sales | 621 | 844 | (26%) |
| EBITDAR | 66 | 73 | (10%) |
| EBITDAR Margin | 10.6% | 8.7% | 195bp |
| CapEx | 24 | 22 | 10% |
| Net Debt | 598 | 686 | (13%) |
| Net Leverage* | 2.05x | 2.62x | (0.6x) |
| Net Interest Coverage* | 6.42x | 4.56x | 1.9x |

* Calculations do not consider IFRS 16, which affects the way leasing assets and liabilities are reported in the Balance Sheet.

Income Statement

SALES:



Total sales distribution: 33%, refrigeration 31%, laundry 29% and global products 7%.

During the second quarter, the participation of the US in Mabe’s total sales went from 43% in 2019 to 50% in 2020. Canada also increased their participation from 11% to 13%. These rises are the result of the change of final consumer behavior in US and Canada as they are revamping their houses because of the lockdown.

Mexico had a participation of 22% in 2020 vs 27% in 2019. LATAM Participation was 17% in 2019 and had a decrease to 12%.

We have seen a higher product demand from GE-HAIER in the US. Manufacturers located in such country are facing some hardness to operate their plants. We believe that the higher demand will continue in the coming months.

In the US, we experienced a sale reduction of 15% vs 2019 mainly affected by the lack of condensers and harnesses used in the refrigerators; however, these sales are expected to be recovered during third quarter. As mentioned in Q120, laundry sales trend were not positive due to the migration of the HA Low Cost Dryer production, from Mabe’s Saltillo factory to GEA’s factory in Louisville, Kentucky. Ranges sales remained flat, just as 2Q of last year.

RESULTS 2Q20

In Canada, Mabe experienced declines in sales of 10% for the quarter. April and May were the affected months. June sales bounced back and the numbers were higher than the same month of last year. EBITDA for the quarter was strong, driven by improved price, strong cost containment as well as wage subsidies from the Federal Government.

Mexico was strongly affected by the COVID and the poor governmental actions taken to curb the virus. Since April, many big retailers were closed, as they were not considered as "Essential Business".

Sales dropped by 39% vs 2Q 2019, being May the most affected month. This trend continued in June with a decrease vs June 2019, reflecting a gradual improvement trend in the last days of the month towards the full reopening of several regions of the country. To balance the sales contraction, strong actions were taken to reduce expenses without affecting the operation. These actions protected the EBITDA and EBITDA margin. In addition, our prices were increased in 2Q due to MXN depreciation.

Central America faced a resurgence of COVID cases at the end of the second quarter, experiencing a slowdown in sales of 55% vs 2Q19. Guatemala and Costa Rica countries decided to maintain some business running with some restrictions. This allowed us to make some sales. Nicaragua has had a good dynamic so far, but customers are conservative on their future purchases. El Salvador, Honduras and Panama have kept trade closed with very strong quarantine measures, which has considerably affected sales. Restrictions expected to be lifted by end of July. In Dominican Republic, customers cancelled their orders due to the COVID, reopening their operations in June; however, they are sitting on high inventory levels, which has caused a large decrease in orders; a recovery is expected by August.

Andean region's performance was highly affected by the measures implemented by the Region's Governments to contain the COVID; therefore, we had a sales drop of 46% vs. 2Q19. Margins were pressured by the depreciation of the local currencies vs. the USD; which resulted in the implementation of price increase in Colombia, Peru and Chile. The actions taken to reduce cost and expenses produced savings of 35%, thus achieving the same EBITDA of last year.

In Argentina, we only decreased 19% in sales vs second quarter of last year. In April, we had an abrupt sales drop due to the strict quarantine. Impact was minimized by freezing expenses and subscribing to "government payroll subsidies programs". Sales, participation in Refrigeration increased from 25% to 40%. We also increased prices and brought cost improvements, generating higher profitability vs. last year.

Finally, our International business, which only represents 3% of Mabe's total sales, was impacted severely in most of our regions; however, such regions are now reactivating. We are now seeing a little recovery mainly in the Middle East region that partially helped us to offset the decrease in other regions.

RESULTS 2Q20

COGS AND GROSS MARGIN:

Cost of goods sold for 2Q20 reached **US\$508MM**, marking a **26% decrease** when compared to COGS for the equivalent in 2Q19.

Our **gross profit** was lower during 2Q20 reaching **US\$113MM vs US\$155MM in 2Q19**. Gross margin for 2Q20 was **18%**. Mabe keeps focusing on efficiency and discipline cost reductions and expenses savings.

OPERATING EXPENSES:

Our **SG&A** for 2Q20 had a **US\$38MM** decrease from **US\$119MM** in 2Q19 to **US\$80MM**.

We executed an aggressive reduction in selling, general and administrative expenses to mitigate the drop in sales volume, which allowed us to maintain the operating margins. The taken actions were the following:

- A) Employees contributed with a 10% payroll cut during the lockdown and all variable performance bonuses were cancelled as well as salary increases.
- B) Commercial expenses such as marketing, DPV and point of sale expenses were held during 2Q to the bare minimum, and this help us to reduce variable expenses in \$8 MM USD.
- C) We are looking into other business areas where we can find opportunities to reduces expenses .

OPERATING PROFIT AND EBITDAR:

Operating profit decreased from **US\$37MM** in 2Q19 to **US\$33MM** in 2Q20.

***EBITDAR** totaled **US\$66MM** vs **US\$73MM** showing a **10%** decrease when compared to 2Q19.

**Consider IFRS 16*

COST OF FINANCING:

Our net financial expense showed an improvement of **142%**, resulting in **US\$6MM gains** driven mainly to the positive exchange rate.

Balance Sheet

CASH:

Our cash position remains in **US\$290MM** to guarantee liquidity in case of a bigger contingency. Additionally, the generated cash flow allowed us to make a payment of **\$39 million** dollars during 2Q20.

WORKING CAPITAL:

Working capital changes for 2Q20 vs 2Q 2019, respond to the following: first, our **accounts receivables** decreased **113 million dollars**. Second, we had a positive effect of **\$39 million dollars in inventories**, due to an effective sell strategy of the on hand and low movements. Finally, our **account payables deleverage \$131 million** dollars.

CAPEX:

CapEx for 2Q20 was US\$24MM, higher than 2Q19 by US\$2MM.

As part of the actions to control the effects of COVID, Mabe decided to reduce its CAPEX budget for 2020 in a 30%, reviewing the priority of each of the projects. Investments related to plant capacity, automation and New Products Development were analyzed. Projects that were planned to start in the last half of the year will be launched in 2021 and 2022.

For the first half of 2020 CAPEX investments were related to projects that has been executed since 2019 and that final dates occur this year.

We deployed funds as follows:

- For Laundry products, we have a new Product Development.
 - We have a new commercial dryer for the US.
 - We continue on the manufacturing automation and capacity increase for our dryer plant in Saltillo

- For Refrigeration we are investing in a new product with the following characteristics
 - Conversion to R600 for US & Canada; a low impact on environment refrigerant

RESULTS 2Q20

- New bottom freezer for LATAM.
 - We are also investing in Manufacturing automation and capacity increase for our plant in Celaya.
-
- For our Cooking business we are investing in some new products which are the following
 - Monogram 20 inch ProRange
 - FaceLift FS which includes Café matte white & fingerprintless

DEBT STRUCTURE:

| US\$MM | 2Q20 | 2Q19 | Δ % |
|-----------------|-------|-------|---------|
| Gross Debt | 888 | 781 | 14% |
| Net Debt | 598 | 686 | (13%) |
| Short-Term Debt | 248 | 207 | 20% |
| Long-Term Debt | 640 | 625 | 2% |
| Net Debt/EBITDA | 2.05x | 2.62x | (0.6x) |

At the end of 2Q20, **Gross debt** reached **US\$888MM**. The **average life** of our debt is **5.9 years**.

Net debt contracted **13%**, to **US\$598MM** from **US\$686MM** in 2Q19. Net leverage at 2Q20 was **2.05X** and Net Interest Coverage stood at **6.42X**, well within our covenants. The Best ratios in the last 10 years. These covenants are calculated without considering the effects of IFRS16.

Annex

Consolidated Condensed Income Statement (Unaudited)

| US\$MM | 2Q20 | 2Q19 | YTD20 | YTD19 |
|--|------------|------------|------------|------------|
| Net Sales | 621 | 844 | 1,299 | 1,545 |
| COGS | 508 | 689 | 1,064 | 1,272 |
| Gross Income | 113 | 155 | 235 | 273 |
| SG&A | 80 | 119 | 177 | 218 |
| Operating Income | 33 | 37 | 58 | 55 |
| Net Interest (Income) / Expense | 13 | 16 | 23 | 34 |
| Commissions | 1 | 1 | 1 | 2 |
| FX (Gain) / Loss | (19) | (4) | (3) | (7) |
| Net Financing Cost | (6) | 13 | 22 | 28 |
| Participation in Subsidiaries | (1) | (0) | (2) | 1 |
| Income / (Loss) Before Income Tax | 37 | 23 | 35 | 27 |
| Income Tax Expense | 9 | 9 | 6 | 11 |
| Consolidated Net Income / (Loss) | 28 | 14 | 28 | 16 |

RESULTS 2Q20

Consolidated Condensed Balance Sheet (Unaudited)

| US\$MM | 2Q20 | 2Q19 |
|---|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | 290 | 95 |
| Accounts Receivables, net | 249 | 362 |
| Tax Receivables | 93 | 103 |
| Inventories, net | 288 | 327 |
| Total Current Assets | 920 | 886 |
| Net PP&E | 836 | 876 |
| Goodwill | 210 | 210 |
| Asset for Leases L.P. | 69 | 98 |
| Deferred Taxes | 82 | 93 |
| Financial Instruments | 0 | 0 |
| Other Assets, net | 512 | 408 |
| Total Assets | 2,630 | 2,571 |
| Liabilities | | |
| Current Liabilities | | |
| Current Maturities of LT Debt & ST Debt | 216 | 161 |
| Notes and Accounts Payables to Suppliers | 778 | 909 |
| Other Accounts Payables and Accrued Liabilities | 130 | 123 |
| ST Liabilities for Leases | 11 | 11 |
| Income Tax Payable | 56 | 58 |
| Total Current Liabilities | 1,190 | 1,263 |
| Long-Term Debt | 673 | 619 |
| Employee Retirement Obligations | 27 | 26 |
| Financial Instruments | 6 | 5 |
| LT Liabilities for Leases | 62 | 87 |
| Other LT Liabilities | 27 | 34 |
| Total Liabilities | 1,985 | 2,034 |
| Total Equity | 645 | 537 |
| Total | 2,630 | 2,571 |

RESULTS 2Q20

Consolidated Condensed Statement of Cash Flows (Unaudited)

| US\$MM | Year to June 2020 | Year to June 2019 |
|---|-------------------------|-------------------------|
| Operating activities: | | |
| Income before income taxes | 36 | 27 |
| <i>Items related to investing activities:</i> | | |
| Depreciation and amortization | 67 | 71 |
| Employee Benefit | (1) | 2 |
| Leases IFRS 16 | (13) | (2) |
| Share of net gain (loss) of associates | (2) | - |
| <i>Items related to financing activities:</i> | | |
| Interest income | (7) | (2) |
| Interest expense | 31 | 37 |
| Exchange fluctuation | (3) | (7) |
| | 109 | 127 |
| (Increase) decrease: | | |
| Accounts receivable | 68 | (63) |
| Inventories | 22 | 27 |
| Increase (decrease): | | |
| Notes and accounts payable to suppliers | (222) | (78) |
| Other payables and accrued liabilities | (15) | (28) |
| Income taxes | (4) | (21) |
| | (41) | (36) |
| Investing activities: | | |
| Acquisitions of property, plant and equipment | (57) | (51) |
| | (57) | (51) |
| (Decrease) / increase in cash to apply to financing activities | | |
| | (98) | (87) |
| Financing activities: | | |
| Borrowings | 670 | 1,384 |
| Payment of debt | (506) | (1,375) |
| Interest paid | (29) | (37) |
| Interest collected | 7 | 2 |
| Dividend payment | (6) | (10) |
| | 135 | (36) |
| Adjustment to cash flows due to exchange rate fluctuations | 6 | 2 |
| | 43 | (121) |
| Cash and cash equivalents at beginning of year | 247 | 216 |
| Cash and cash equivalents at end of period | 290 | 95 |

RESULTS 2Q20

CONFERENCE CALL

Date:

Tuesday, June 28th, 2020

8:30 AM – Mexico City Time

9:30 AM – New York Time

To join the call please dial:

Toll-Free (US) +1-877-407-0789

Toll / International 1-201-689-8562

Conference ID: 13707268

Speakers:

José Calvillo, CFO

Laura Alvizo, Treasury and IR

Replay:

Toll Free 1-844-512-2921

Toll / International 1-412-317-6671

Start Date: 07/28/20 at 12:30 pm Eastern Time

End Date: 08/04/20 at 11:59 pm Eastern Time

Replay Pin Number: 13707268

CONTACT

JOSÉ CALVILLO

CFO

Phone: +52-55-1100-3712

E-mail: jose.calvillo@mabe.com.mx

MAURICIO GIL ROCHA

Finance Director

Phone: +52-55-1100-3718

E-mail: mauricio.gil@mabe.com.mx

FLORENCIA DE LA FUENTE

Corporate Treasury & Investors Relations Manager

Phone: +52-55-11-00-37-30

E-mail: florencia.de_la_fuente@mabe.com.mx

LAURA ALVIZO

Treasury & Investors Relations Jr. Manager

Phone: +52-55-9178-8268

E-mail: laura.alvizo@mabe.com.mx

COMMENTS ON OUR FINANCIAL STATEMENTS:

This Press Release contains our unaudited condensed consolidated financial statements as of June 30th, 2019 and June 30th, 2018. Since January 1st, 2010 we have prepared our condensed financial statements in U.S. Dollars, which represent the functional currency applicable to Controladora Mabe. Other periods were translated by using the average foreign exchange rate of the reported period for income statement accounts. Furthermore, since January 1st, 2012, our financial statements are reported in accordance with the International Financial Reporting Standards, referred to as "IFRS". Before January 1st, 2012 our condensed financial statements were prepared according to the Mexican Financial Reporting Standards, referred to as "MFRS". MFRS differs in certain significant respects from IFRS and from the generally accepted accounting principles applied in the United States, referred to as "U.S. GAAP". The latter might be material to the financial information contained herein. We have not prepared a reconciliation of our financial statements and related notes from IFRS to MFRS, MFRS to U.S. GAAP or IFRS to U.S. GAAP and we have not quantified those differences; therefore, we cannot assure that a reconciliation would not identify material quantitative differences. EBITDA is not a measure of financial performance under IFRS 16 and should not be considered as an alternative to net income or operating income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. You should review EBITDA, along with net income and cash flow from operating activities, investing activities and financing activities, when trying to understand our operating performance.

INDUSTRY & MARKET DATA:

Certain data and other statistical information used throughout this Press Release are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Other data is based on our estimates, which are derived from our review of internal surveys, as well as independent sources. Our estimates for South America and Central America are based exclusively on our beliefs and information we have obtained ourselves and not from independent sources. Although we believe our sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness. All market share information presented in this press release is based on unit sales.