

# LAB

## Quarterly Report

August 3, 2023

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## Domestic market boosts figures

- **Results in line with our estimates, supported by a relevant performance in Mexico. Highlights include a consolidated sequential margin increase derived from greater operating efficiencies and expense control**
- **Although the outlook is positive due to the expected benefit from investments, the strength of the peso will continue to mitigate growth. FV/EBITDA valuation remains stable at 5.6x**

**Mexico with advances in both lines of business, while South America loses momentum.** Lab reported figures in line with our forecasts, reflecting revenues of MXN 4.4 billion (+5.5% y/y). Sales were especially driven by the performance of Personal Care (PC), which advanced 10.1% y/y, offsetting the -6.3% y/y decline in Over-the-Counter (OTC) Medicines. In particular, Mexico continued to be the main growth driver with 19.4% y/y (+27.0% y/y in OTC and +13.1% y/y in PC), supported by the good performance of their brands. However, South America reported a contraction of 14.5% y/y (-27.6% y/y in OTC and +7.2% y/y in PC), affected by the depreciation of local currencies and hyperinflationary accounting effects in Argentina. In the US, there was an increase of 8.4% y/y (+9.2% in OTC and +7.6% y/y in PC), explained by its performance in supermarkets in Puerto Rico, point-of-sale strategies, and an improvement in sales in Los Angeles. EBITDA amounted to MXN 0.9 billion (+3.2% y/y) with a margin of 21.1% (+0.5pp), as a result of a +2.3pp expansion in profitability in South America attributed to strict expense control and a favorable price mix; while Mexico had a -0.7pp adjustment due to non-recurring investments related to the transition process from external manufacturing to their own lines. Finally, net income reached MXN 0.4 billion (+3.1% y/y), in line with operating performance. There are challenges in the short term related to the strength of the peso and the progress in the production lines. In our view, although the outlook is positive, the strength of the Mexican peso could continue to impact operating growth in South America and the US. On the other hand, attention will be focused on the progress of the manufacturing plant's production lines and their contribution to profitability in the coming quarters.

BUY	
Current Price	\$14.30
PT	\$24.00
Expected Dividend	\$0.20
Dividend (%)	1.4%
Upside Potential	69.2%
Max - Min LTM (\$)	19.65-12.56
Market Cap (US\$m)	865.1
Shares Outstanding (m)	1,020.0
Float	71%
Daily Turnover (\$ m)	49.1
Valuation metrics LTM	
FV/EBITDA	5.6x
P/E	10.5x
MSCI ESG Rating*	N.A.

Relative performance to MEXBOL LTM



Winners of the 2023 award for the best economic forecasters in Mexico, awarded by Focus Economics.



Financial Statements				
MXN, million	2021	2022	2023E	2024E
Revenue	15,487	16,859	18,020	19,618
Operating Income	3,047	3,263	3,606	4,121
EBITDA	3,213	3,471	3,828	4,363
EBITDA Margin	20.7%	20.6%	21.2%	22.2%
Net Income	1,308	1,397	1,657	2,062
Net Margin	8.4%	8.3%	9.2%	10.5%
Total Assets	21,543	21,756	24,193	26,761
Cash	1,265	1,504	2,449	3,268
Total Liabilities	11,471	11,588	12,369	12,875
Debt	5,961	6,441	6,282	6,404
Common Equity	10,072	10,167	11,824	13,886

Source: Banorte

Valuation and financial metrics				
	2021	2022	2023E	2024E
FV/EBITDA	6.6x	6.0x	5.2x	4.4x
P/E	11.2x	11.4x	9.6x	7.7x
P/BV	1.6x	1.6x	1.3x	1.1x
ROE	13.0%	13.7%	14.0%	14.8%
ROA	6.1%	6.4%	6.8%	7.7%
EBITDA/ Interest	8.2x	8.8x	7.7x	11.1x
Net Debt/EBITDA	1.5x	1.4x	1.0x	0.7x
Debt/Equity	0.6x	0.6x	0.5x	0.5x

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## LAB – Results 2022

MXN million

Concept	2022	2023	Var %	2023e	Diff% vs Estim.
Revenue	4,324	4,371	1.1%	4,550	-3.9%
Operating Income	840	871	3.7%	865	0.7%
Ebitda	892	920	3.2%	934	-1.5%
Net Income	405	417	3.1%	358	16.6%
<b>Margins</b>					
Operating Margin	19.4%	19.9%	0.5pp	19.0%	0.9pp
Ebitda Margin	20.6%	21.1%	0.5pp	20.5%	0.5pp
Net Margin	9.4%	9.6%	0.2pp	7.9%	1.7pp
EPS	\$0.39	\$0.40	3.1%	\$0.34	16.6%

<b>Income Statement (Million)</b>					
Year	2022	2023	2023	Change	Change
Quarter	2	1	2	% y/y	% q/q
Net Revenue	4,323.6	4,178.2	4,370.5	1.1%	4.6%
Costs of goods sold	1,710.6	1,614.5	1,705.7	-0.3%	5.6%
Gross profit	2,613.0	2,563.7	2,664.8	2.0%	3.9%
General expenses	1,773.2	1,759.9	1,793.7	1.2%	1.9%
Operating Income	839.8	803.8	871.1	3.7%	8.4%
Operating Margin	19.4%	19.2%	19.9%	0.5pp	0.7pp
Depreciation	56.9	63.5	49.0	-13.9%	-22.8%
EBITDA	892.0	867.3	920.1	3.2%	6.1%
EBITDA Margin	20.6%	20.8%	21.1%	0.4pp	0.3pp
Interest Income (Expense) net	(198.6)	(300.1)	(292.9)	47.5%	-2.4%
Interest expense	119.4	182.0	221.4	85.5%	21.7%
Interest income	30.5	34.2	62.9	106.2%	83.8%
Other income (expense)			19.8	N.A.	N.A.
Foreign exchange gain (loss)	(28.5)	(129.4)	(154.1)	441.0%	19.1%
Unconsolidated subsidiaries	(27.6)	(12.4)	(3.4)	-87.8%	-73.0%
Income before taxes	613.6	491.3	574.9	-6.3%	17.0%
Income taxes	208.9	133.3	157.5	-24.6%	18.2%
Discontinued operations					
Consolidated Net Income	404.7	358.0	417.4	3.1%	16.6%
Non-controlling interest				N.A.	N.A.
Net Income	404.7	358.0	417.4	3.1%	16.6%
Net Margin	9.4%	8.6%	9.6%	0.2pp	1.0pp
EPS	0.386	0.342	0.398	3.1%	16.6%

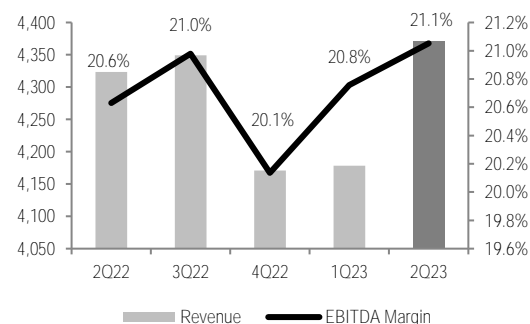
<b>Balance Sheet (Million pesos)</b>					
Total Current Assets	11,803.8	11,490.2	11,526.4	-2.4%	0.3%
Cash & Short Term Investments	1,299.4	1,249.0	1,369.6	5.4%	9.7%
Long Term Assets	10,210.4	10,354.2	10,153.5	-0.6%	-1.9%
Property, Plant & Equipment (Net)	3,417.0	3,578.7	3,397.8	-0.6%	-5.1%
Intangible Assets (Net)	5,214.0	5,160.9	5,123.9	-1.7%	-0.7%
Total Assets	22,014.3	21,844.4	21,679.8	-1.5%	-0.8%
Current Liabilities	7,060.8	9,498.7	6,983.6	-1.1%	-26.5%
Short Term Debt	1,891.9	4,748.1	2,563.3	35.5%	-46.0%
Accounts Payable	4,019.5	3,545.9	3,316.6	-17.5%	-6.5%
Long Term Liabilities	4,175.4	1,966.3	4,236.1	1.5%	115.4%
Long Term Debt	3,626.6	1,477.2	3,800.5	4.8%	157.3%
Total Liabilities	11,236.2	11,465.0	11,219.7	-0.1%	-2.1%
Common Stock	10,778.1	10,379.4	10,460.1	-3.0%	0.8%
Non-controlling interest				N.A.	N.A.
Total Equity	10,778.1	10,379.4	10,460.1	-3.0%	0.8%
Liabilities & Equity	22,014.3	21,844.4	21,679.8	-1.5%	-0.8%
Net Debt	4,219.1	4,976.2	4,994.1	18.4%	0.4%

<b>Cash Flow</b>			
CF from Operating Activities	1,687.7	528.8	1,229.7
CF from Investing Activities	(122.9)	(47.9)	(27.0)
CF from Financing Activities	(1,074.7)	(444.5)	(736.3)
Change in Cash Balance	103.6	(174.4)	2.4

Source: Banorte, MSE

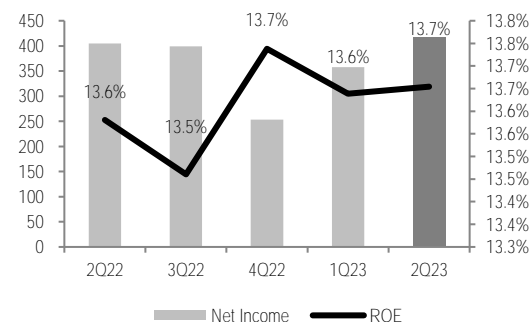
## Revenue & EBITDA Margin

MXN, million



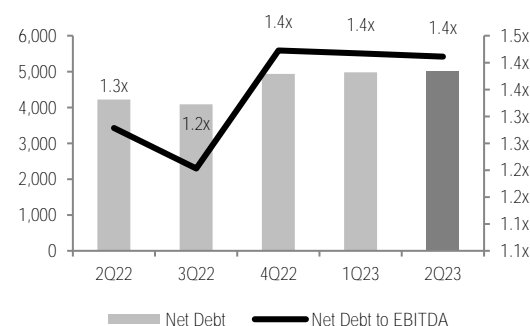
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA ratio

MXN, million



## Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmín Daniela Cuatrecasas Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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### Guide for investment recommendations.

	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

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### History of PT and Ratings

Stock	Date	Rating	PT
LAB	02/22/23	BUY	\$24.00
LAB	10/26/22	BUY	\$23.53
LAB	07/27/22	BUY	\$25.80

### MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD	AVERAGE			LEADER		

\*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics.

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