April 4, 2023

ALSEA (BUY, PT$53.00)

Flash: *Alsea Day.* Driving digital transformation, while leveraging organic expansion

- **Alsea reported its strategic plan for 2027, based on a series of measures aimed at strengthening the traditional business by optimizing the cost structure and supporting digital channel**
- **The positive outlook for the company remains positive, supported by organic growth and technological development. However, short-term challenges associated with cost issues in Europe remain**

The outlook and plan announced during investor day were mostly in line with our expectations. Although the surprises were minor, they represent a series of guidelines that should lead to consolidation and expansion in the medium term. In particular, the company establishes six main lines of action for the next few years aimed at detonating company value: (1) having the best talent; (2) operational excellence; (3) digital transformation and cutting-edge marketing; (4) portfolio growth and profitability; (5) innovation; and (6) sustainability. On the other hand, among the highlights, Alsea maintains as a goal for the period from 2023 to 2027 the opening of 2,530 business units, which will be distributed in Mexico (51%), Europe (32%), and South America (17%).

Updated outlook for 2023. In line with our forecasts, the company set an EBITDA growth target of over 10% y/y in 2023, which compares favorably with the anticipated 14.0% y/y. Although it has continued with an important expansion, recalling the 14.1% y/y consolidated advance in 2022, profitability has been under pressure due to higher raw material costs, particularly energy costs in Europe. Based on the above, we are targeting an EBITDA margin above 20% (vs. 20.4% in 2022 vs. 31.3% in 2021), which will most likely continue to integrate the negative impact of Europe derived from a pressured environment in the first half of the year. In this context, it would be reflecting a Debt/EBITDA ratio of 3.8x (vs. 3.5x currently) and a ROE between 21% and 23%. Finally, debt payments of MXN 1.3 billion are expected, representing 4.9% of total debt, as well as seeking to refinance debt by 2024.

	Pre IFRS 16	Post IFRS 16	Our estimates Post IFRS 16
EBITDA a/a	>15%	>10%	14.0%
Margin EBITDA	>13%	>20%	21.8%
Debt/EBITDA	~2.8x	~3.3x	~3.5x
ROE	18%-19%	21% - 23%	23.8%

Source: Alsea, Banorte

A plan based on organic expansion and the search for operational efficiencies, while driving the digital segment. Alsea identifies 4 key strategies to be developed over the next few years, which come together in the following:

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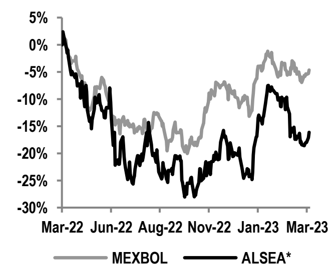
BUY	
Current Price	$43.15
PT	**$53.00**
Upside Potential	22.8%
Max – Min LTM ($)	49.86-35.04
Market Cap (US$m)	1,872.8
Shares Outstanding (m)	838.6
Float	48.6%
Daily Turnover ($ m)	74.1
Valuation metrics LTM	
FV/EBITDA	5.8x
P/E	22.2x
MSCI ESG Rating*	**N.A.**

Relative performance to MEXBOL
LTM



(1) staff capacity, involving the attraction, retention, development, and talent; (2) digital capabilities, which, in turn, integrates loyalty programs, information processing and analysis, the development of Omnichannel and personalized marketing; (3) operational capabilities, reflecting the search to improve customer experiences and (4) capacity management, where it would be looking to increase profitability. In particular, the company expects that the second measure (2) mentioned above, which includes price optimization, elasticity analysis, product and channel segmentation, as well as price studies and sales maximization, would represent an opportunity for annual EBITDA between 1% and 1.5%. In turn, they estimate that Starbucks' digital transformation will drive national market penetration from 35.4% in 2022 to 39% in 2023, as well as an expected level of 56% in 2027, driven by rewards programs and stores.

Strategies focused on expanding its main lines of business over the next 4 years. For the (1) Starbucks division, we expect to open an average of 690 stores per year until 2027 (43% in Europe, 36% in Mexico and 21% in South America), seeking to give priority to products with higher margins; (2) Domino's expects to open 127 new stores per year, where the greatest efforts will be channeled to Mexico (68%), followed to a lesser extent by Europe (17%) and South America (14%). Finally, (4) in the casual and family food division, 17 new stores are expected to open on average per year (53% in Europe, 43% in Mexico and 4% in South America).

General investment plan. For the current year, CAPEX is expected to reach MXN 5.5 billion (+30.5% y/y), of which 51.8% will be invested in Mexico, 27.8% in Europe, and 20.4% in South America. In particular, the technology segment will receive around 8.6% of CAPEX, in order to continue to accelerate the growth of its digital platforms and leverage the presence of branches in all regions. In that sense, among the apps that will continue to drive, are Domino's, Starbucks Rewards, and Wow+, which have added more than 50 million deliveries and revenues of MXN 18.8 billion in 2022, reflecting a 27.3% share of total sales. In turn, 37% of Capex will be channeled to openings, 28.4% to maintenance, 17.5% to remodeling, and 8.4% to other items.

Positive outlook, although profitability pressures are expected in the short term. At investor day, external factors in Europe were mentioned that will continue to pressure margins. On the one hand, they pointed out that energy prices (electricity) have had a significant impact, but for 1Q23 they are below half of their 2H22 average evolution, which leads them to believe that they will have a better environment for 2H23. Additionally, they reported that they have been able to pass through close to 65% of the costs derived from the increases in input prices to consumers. Against this backdrop, we remain cautious for the first half of the year as growth rates may decelerate and profitability pressures gradually diminish. We favor the second half of the year as we expect further progress in the consolidation of our strategies in conjunction with a more positive cost environment. We highlight an attractive valuation with a FV/EBITDA multiple of 5.8x, which is below the L5A average of 7.9x, as well as the restaurant operator average of 10.1x and franchisee average of 17.4x (global average of 14.0x).

Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, 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 Thalía 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, Paola Soto Leal, Daniel Sebastián Sosa Aguilar 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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The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

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For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

History of PT and Ratings

Stock	Date	Rating	PT
ALSEA	10/27/2022	BUY	$53.00
ALSEA	07/28/2022	BUY	$53.29
ALSEA	04/27/2022	BUY	$53.91

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD	AVERAGE				LEADER	

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

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