

# LAB

## Quarterly Report

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## Confirms sequential recovery in profitability

- Results were in line with our estimates, where margin pressures in Mexico continue, partially reflecting the process of transferring third party manufacturing to their own lines
- Outlook is positive based on the expected progress in operating efficiencies driven by its manufacturing plant. Although investments results will be visible in the mid-term

**Margin expansion supported by efficiencies in Latin America, but adverse currency effects and pressures in Mexico prevail.** The company reported figures in line with our estimates, recording a 4.1% y/y increase in revenues to MXN 4.2 billion. Sales were driven by Over-the-Counter (OTC) medicine performance, which advanced 5.3% y/y, while Personal Care (PC) registered a +2.4% y/y variation. In particular, Mexico was the main growth driver with 10.7% y/y (+15.9% y/y in OTC and +5.5% y/y in PC), supported by product extension launches during the quarter. Although South America contracted 3.4% y/y (-5.8% y/y in OTC and 0.4% y/y in PC) due to foreign exchange effects, most countries and categories achieved double-digit increases. In the US, sales increased 15.7% y/y, driven by higher points of sale and eCommerce good performance. EBITDA reached MXN 867 million (+4.9% y/y) with a margin of 20.8% (+0.2pp), reflecting an expansion in Latin America (+2.4pp) due to strict cost control, which offset Mexico's contraction (-2.0pp), mainly due to its transition process from third-party products to its own production lines, again having an impact. Finally, net income reached MXN 358 million (+5.5% y/y), in line with operating performance. **Short-term challenges continue as the peso strength follows and its transferring of manufacturing lines concludes.** In our view, [the outlook is positive](#) as they continue to consolidate plant benefits, although this could take time to detonate value. We highlight an attractive valuation at 5.9x FV/EBITDA vs. the average of the last five years at 8.6x and financial strength (ND/EBITDA at 1.4x).

BUY	
Current Price	\$17.23
PT	\$24.00
Dividend e	\$0.76
Dividend	5.0%
Upside Potential	63.4%
Max – Min LTM (\$)	23.00-12.56
Market Cap (US\$m)	874.1
Shares Outstanding (m)	1,020.0
Float	71%
Daily Turnover (\$ m)	53.3
Valuation metrics LTM	
FV/EBITDA	5.9x
P/E	11.2x
MSCI ESG Rating*	N.A.

Relative performance to MEXBOL LTM



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

	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 1Q23

MXN million

Concept	1Q22	1Q23	Var %	1Q23e	Diff% vs Estim.
Revenue	4,015	4,178	4.1%	4,283	-2.4%
Operating Income	775	804	3.7%	833	-3.5%
Ebitda	827	867	4.9%	886	-2.1%
Net Income	339	358	5.5%	328	9.3%
<b>Margins</b>					
Operating Margin	19.3%	19.2%	-0.1pp	19.5%	-0.2pp
Ebitda Margin	20.6%	20.8%	0.2pp	20.7%	0.1pp
Net Margin	8.4%	8.6%	0.1pp	7.6%	0.9pp
EPS	\$0.32	\$0.34	5.5%	\$0.31	9.3%

## Income Statement (Million)

Year	2022	2022	2023	Change	Change
Quarter	1	4	1	% y/y	% q/q
Net Revenue	4,014.8	4,171.1	4,178.2	4.1%	0.2%
Costs of goods sold	1,501.7	1,787.4	1,614.5	7.5%	-9.7%
Gross profit	2,513.2	2,383.7	2,563.7	2.0%	7.6%
General expenses	1,737.9	1,595.3	1,759.9	1.3%	10.3%
Operating Income	775.2	788.4	803.8	3.7%	1.9%
Operating Margin	19.3%	18.9%	19.2%	(0.1pp)	0.3pp
Depreciation	56.2	51.5	63.5	13.1%	23.4%
EBITDA	826.6	839.9	867.3	4.9%	3.3%
EBITDA Margin	20.6%	20.1%	20.8%	0.2pp	0.6pp
Interest Income (Expense) net	(248.7)	(312.0)	(300.1)	20.7%	-3.8%
Interest expense	95.4	162.4	182.0	90.7%	12.1%
Interest income	9.5	36.2	34.2	259.8%	-5.4%
Other income (expense)			(22.9)	N.A.	N.A.
Foreign exchange gain (loss)	(26.0)	(109.3)	(129.4)	398.2%	18.3%
Unconsolidated subsidiaries	(27.7)	58.3	(12.4)	-55.2%	N.A.
Income before taxes	498.8	534.8	491.3	-1.5%	-8.1%
Income taxes	159.6	281.2	133.3	-16.5%	-52.6%
Discontinued operations					
Consolidated Net Income	339.2	253.6	358.0	5.5%	41.2%
Non-controlling interest				N.A.	N.A.
Net Income	339.2	253.6	358.0	5.5%	41.2%
Net Margin	8.4%	6.1%	8.6%	0.1pp	2.5pp
EPS	0.324	0.242	0.342	5.5%	41.2%

## Balance Sheet (Million pesos)

Total Current Assets	12,106.5	11,441.5	11,490.2	-5.1%	0.4%
Cash & Short Term Investments	1,553.6	1,503.8	1,249.0	-19.6%	-16.9%
Long Term Assets	10,057.3	10,314.1	10,354.2	3.0%	0.4%
Property, Plant & Equipment (Net)	3,368.4	3,547.2	3,578.7	6.2%	0.9%
Intangible Assets (Net)	5,277.3	5,171.5	5,160.9	-2.2%	-0.2%
Total Assets	22,163.8	21,755.6	21,844.4	-1.4%	0.4%
Current Liabilities	6,974.6	9,495.9	9,498.7	36.2%	0.0%
Short Term Debt	1,738.2	4,851.5	4,748.1	173.2%	-2.1%
Accounts Payable	3,877.5	3,456.1	3,545.9	-8.6%	2.6%
Long Term Liabilities	4,807.9	2,092.3	1,966.3	-59.1%	-6.0%
Long Term Debt	3,740.9	1,589.8	1,477.2	-60.5%	-7.1%
Total Liabilities	11,782.6	11,588.3	11,465.0	-2.7%	-1.1%
Common Stock	10,381.3	10,167.4	10,379.4	0.0%	2.1%
Non-controlling interest				N.A.	N.A.
Total Equity	10,381.3	10,167.4	10,379.4	0.0%	2.1%
Liabilities & Equity	22,163.8	21,755.6	21,844.4	-1.4%	0.4%
Net Debt	3,925.6	4,937.5	4,976.2	26.8%	0.8%

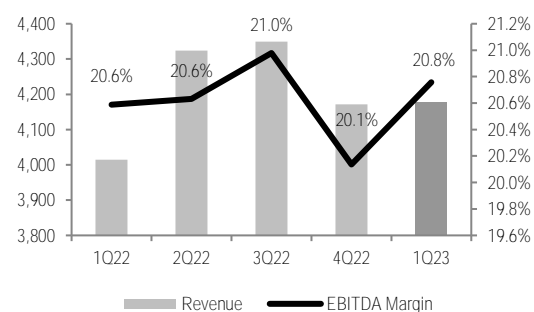
## Cash Flow

CF from Operating Activities	1,122.2	2,712.5	528.8		
CF from Investing Activities	(78.2)	(254.7)	(47.9)		
CF from Financing Activities	(645.2)	(1,362.6)	(444.5)		
Change in Cash Balance	302.1	411.1	(174.4)		

Source: Banorte, MSE

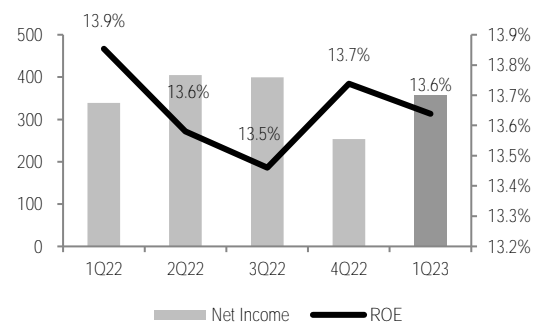
## Revenue & EBITDA Margin

MXN, million



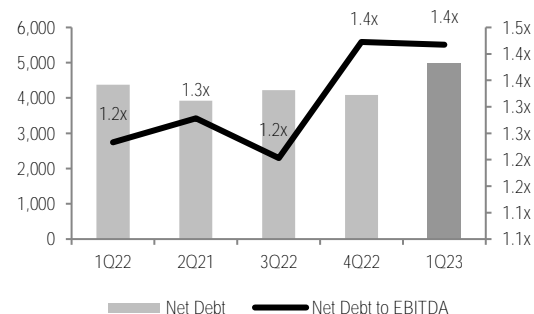
## Net Income & ROE

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 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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	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

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