

LIVEPOL

Quarterly Report

Growth accelerates and margins remain stable

- **Results surprised favorably, driven by a still-resilient demand, which should be well received by the market. Highlighting a stable EBITDA margin at 16.3%**
- **The company's outlook is positive, supported by the Omnichannel strategy, with a solid financial position and an attractive valuation FV/EBITDA of 5.3x vs L5Y average of 9.3x**
- **By incorporating better figures given all-formats performance and strict expense control, we set a PT of MXN 118.00 (FV/EBITDA of 5.5x). Our recommendation is to BUY**

Expansion remains strong across all formats and profitability remains stable, while Omnichannel furthers. The company's figures surprised positively from advances in all business lines, reflecting a 19.6% YoY increase in revenues to MXN 38.1 billion. Commercial sales increased 19.7% YoY to MXN 33.9 billion, highlighting Liverpool's total growth of 20.3% YoY (+19.3% in SSS), largely explained by an acceleration in the Softline category, while Suburbia increased by 15.9% YoY (16.1% SSS), as result of the good performance in product demand. In turn, Credit division's revenues amounted to MXN 3.2 million (18.6% YoY) and Leasing revenues reached MXN 944 million (17.1% YoY). EBITDA hit MXN 6.2 billion (18.3% YoY) with the margin at 16.3% (-0.2pp), remaining practically stable due to strong operational advances and good performance in Omnichannel strategies, although the non-performing loan ratio (NPLs) increased to 2.8% in 3Q22 from 2.4% in 2Q22 (stable vs 2.9% in 3Q21). Finally, net income expanded to MXN 3.1 million (35.5% YoY), supported by lower financial expenses (-52.8% YoY). **Financial strength, although backdrop risks prevail.** Going forward, we will continue to monitor shrinkage control measures and operational efficiencies to limit profitability pressures, we recommend to BUY.

Financial Statements

	2020	2021	2022E	2023E
Revenues	115,473	151,022	178,093	186,262
Operating Income	4,154	18,733	23,202	24,810
EBITDA	9,006	23,909	28,279	30,142
EBITDA Margin	7.8%	15.8%	15.9%	16.2%
Net Income	1,096	12,878	15,324	16,887
Net Margin	0.9%	8.5%	8.6%	9.1%
Total Assets	204,843	221,971	224,127	236,083
Cash	26,196	24,905	29,262	36,709
Total Liabilities	97,023	102,083	94,730	94,541
Debt	37,804	33,225	31,059	31,059
Common Equity	107,577	119,628	131,559	148,447

Source: Banorte.

Valuation and financial metrics

	2020	2021	2022E	2023E
FV/EBITDA	13.2x	5.6x	4.7x	4.4x
P/E	113.7x	7.8x	7.4x	6.6x
P/BV	1.2x	0.9x	0.9x	0.8x
ROE	1.0%	10.8%	11.6%	11.4%
ROA	0.5%	5.8%	6.8%	7.2%
EBITDA/ Interes exp	3.1x	7.1x	12.4x	15.8x
Net Debt/EBITDA	1.3x	0.3x	0.1x	-0.2x
Debt/Equity	0.4x	0.3x	0.2x	0.2x

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www.banorte.com
@analisis_fundam

Carlos Hernandez
Senior Strategist, Equity
calors.hernandez.garcia@banorte.com

Paola Soto
Analyst
paola.soto.leal@banorte.com

Marissa Garza
Director of Equity Strategy
marissa.garza@banorte.com

BUY

Current Price	\$92.81
PT	\$118.00
Upside Potential	27.1%
Max - Min LTM (\$)	109.7-81.9
Market Cap (US\$m)	6,465.7
Shares Outstanding (m)	1,342.2
Float	19.2%
Daily Turnover (\$m)	44.2
Valuation metrics LTM	
FV/EBITDA	5.3x
P/E	7.5x
MSCI ESG Rating*	N.A.

Relative Performance to MEXBOL LTM



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LIVEPOL – Results 3Q22

MXN, million

Concept	3Q21	3Q22	Var %	3Q22e	Diff % vs Estim.
Revenue	31,829	38,054	19.6%	36,400	4.5%
Operating Income	3,972	4,907	23.5%	4,149	18.3%
Ebitda	5,232	6,189	18.3%	5,413	14.3%
Net Income	2,272	3,079	35.5%	2,438	26.3%
Margins					
Operating Margin	12.5%	12.9%	0.4pp	11.4%	1.5pp
Ebitda Margin	16.4%	16.3%	-0.2pp	14.9%	1.4pp
Net Margin	7.1%	8.1%	1.0pp	6.7%	1.4pp
EPS	\$1.69	\$2.29	35.5%	\$1.82	26.3%

Income Statement

Year	2021	2021	2022	Change	Variation
Quarter	3	2	3	% y/y	% q/q
Net Revenue	31,828.9	42,560.2	38,054.0	19.6%	-10.6%
Cost of goods sold	19,092.5	25,876.1	22,977.1	20.3%	-11.2%
Gross profit	12,736.5	16,684.2	15,076.9	18.4%	-9.6%
General expenses	8,764.7	10,153.5	10,170.3	16.0%	0.2%
Operating Income	3,971.8	6,530.7	4,906.5	23.5%	-24.9%
Operating Margin	12.5%	15.3%	12.9%	0.4pp	(2.5pp)
Depreciation	1,260.0	1,253.0	1,282.1	1.8%	2.3%
EBITDA	5,231.8	7,783.7	6,188.6	18.3%	-20.5%
EBITDA Margin	16.4%	18.3%	16.3%	(0.2pp)	(2.0pp)
Interest income (expense) net	(748.4)	(368.1)	(756.3)	1.0%	105.5%
Interest expense	1,564.5	975.7	981.3	-37.3%	0.6%
Interest income	438.6	435.2	449.5	2.5%	3.3%
Other income (expenses)				N.A.	N.A.
Exchange Income (loss)	1.4	172.4	(224.5)	N.A.	N.A.
Unconsolidated subsidiaries	(44.9)	154.6	113.4	N.A.	-26.6%
Income before taxes	3,178.5	6,317.2	4,263.7	34.1%	-32.5%
Income taxes	903.4	1,841.1	1,181.3	30.8%	-35.8%
Discontinued operations					
Consolidated Net Income	2,275.1	4,476.2	3,082.4	35.5%	-31.1%
Minorities	3.3	2.4	3.5	6.7%	48.5%
Net Income	2,271.7	4,473.8	3,078.8	35.5%	-31.2%
Net margin	7.1%	10.5%	8.1%	1.0pp	(2.4pp)
EPS	1.693	3.333	2.294	35.5%	-31.2%

Balance Sheet (Million pesos)

Total Current Assets	79,051.4	88,146.9	81,682.0	3.3%	-7.3%
Cash & Short Term Investments	20,364.1	23,556.9	13,186.6	-35.2%	-44.0%
Long Term Assets	125,165.4	130,078.9	136,713.3	9.2%	5.1%
Property, Plant & Equipment (Net)	51,335.5	53,205.1	54,286.1	5.7%	2.0%
Intangible Assets (Net)	8,175.4	8,126.4	8,005.9	-2.1%	-1.5%
Total Assets	204,216.8	218,225.8	218,395.3	6.9%	0.1%
Current Liabilities	42,461.5	44,883.5	43,584.2	2.6%	-2.9%
Short Term Debt	6,903.9	4,152.4	2,991.3	-56.7%	-28.0%
Accounts Payable	27,603.0	31,089.3	30,289.3	9.7%	-2.6%
Long Term Liabilities	49,190.8	50,143.2	49,415.2	0.5%	-1.5%
Long Term Debt	40,345.7	40,191.1	40,090.2	-0.6%	-0.3%
Total Liabilities	91,652.3	95,026.7	92,999.4	1.5%	-2.1%
Common Stock	112,564.5	123,199.1	125,395.9	11.4%	1.8%
Preferred Stock	255.5	265.3	268.8	5.2%	1.3%
Total Equity	112,309.0	122,933.9	125,127.1	11.4%	1.8%
Liabilities & Equity	204,216.8	218,225.8	218,395.3	6.9%	0.1%
Net Debt	26,885.6	20,786.5	29,894.9	11.2%	43.8%

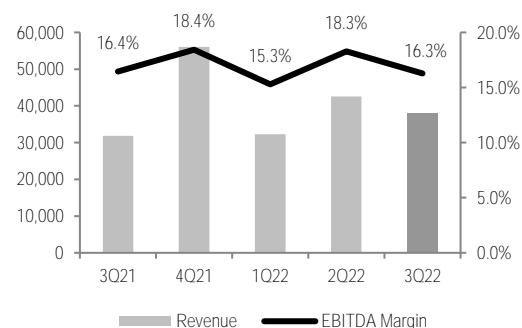
Cash Flow (Million pesos)

Cash Flow from Operating Activities	(1,224.5)	2,028.8	1,018.2		
Cash Flow from Investing Activities	(6,106.5)	(2,661.9)	(10,591.1)		
Cash Flow from Financing Activities		(6,851.4)	(9,326.8)		
FX effect on cash	(4,541.3)	(8,937.9)	(19,308.2)		
Change in Cash Balance	(1,224.5)	2,028.8	1,018.2		

Source: Banorte, MSE.

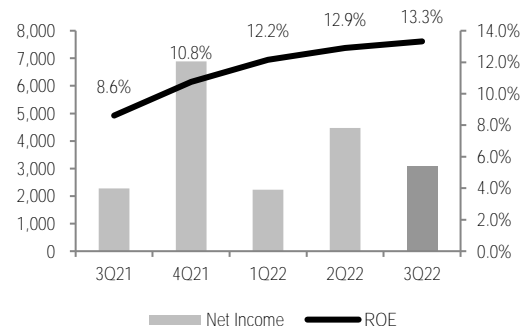
Revenue & EBITDA Margin

MXN, million



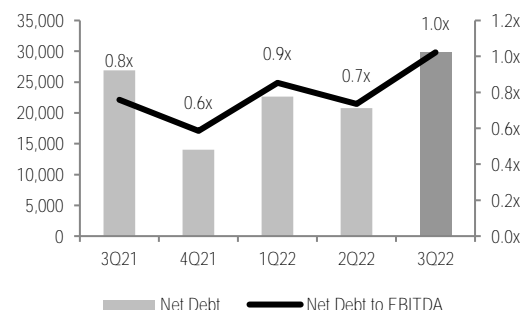
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Omnichannel strategies, logistics, and organic growth would partially offset a slowing economic environment

Liverpool's performance has shown a strong resilience in an environment of full social mobility and economic recovery so far in 2022. The good results obtained were driven from commercial strategies, combined with strict expense control, which have led to all-business-lines progress, with an outstanding profitability expansion. Although there are [still latent medium-term risks associated with an environment of high inflation and lower growth](#), given more restrictive monetary policies, the financial structure is sufficiently solid to face backdrop challenges and adapt new strategies, while taking into advantage the opportunities that might arise.

Updated estimates

After the before-mentioned context, we are updating our estimates. For 2022, and integrating the latest figures for the quarter, we expect demand to remain solid for the rest of the year, supported by important progress in Omnichannel strategies and high social mobility. As a result, we anticipate revenues to grow 17.9% YoY to MXN 178.1 billion, driven mainly by a 17.8% YoY increase in Commercial division sales (SSS +15.7%e) supported by a 4.7% YoY increase on sales floor. In particular, we project Liverpool division sales will increase 16.1% YoY and Suburbia's will climb 10.8% YoY. Regarding the financial business, we expect total portfolio to grow by 19.2% YoY, which translates into a 21.1% YoY increase in revenues, explained by a greater economic reactivation during the period and higher interest rates. Finally, in the Real estate segment, we assume a 28.5% YoY hike in revenues, mainly as result of inflationary adjustments in the average rent and an increase in the occupancy rate to 91.1% vs. 89.7% currently. Based on the above, we anticipate 18.3% YoY advance in EBITDA to MXN 28.3 billion, which reflects the strong progress in all business lines. As a result, EBITDA is expected to be stable at 15.9%, where strict expense control is supporting profitability. In turn, we expect the financial benefit to be higher at MXN 2.3 billion in 2022 vs. MXN 3.1 billion in 2021, driven by a higher interest rate environment and a lower level of debt. Meanwhile, the tax rate at 27.9%, would return to pre-pandemic levels, therefore, on a net basis, we project earnings to grow 19.0% YoY to MXN 15.3 billion.

Meanwhile, for 2023, although we foresee a very complex start of the year, based on a scenario where inflation could persist and consumption could show signs of depletion, largely driven from a high interest rate scenario and underpinning an economic recession, we expect the second half of the year to show signs of greater recovery and cost pressures begin to ease. Based on the above, we are conservatively positioning revenues to increase just 4.6% YoY to MXN 18.3 billion, explained by a 3.9% YoY expansion in sales of the Commercial division (SSS of 2.0%e), and considering a 2.6% YoY increase on sales floor. In particular, we anticipate a 4.4% YoY increase in Liverpool sales (SSS of 2.8%e), as well as an increase in Suburbia of 4.5% YoY. In addition, in the financial business we anticipate a 4.5% YoY variation in total portfolio, under an environment of lower economic dynamism, although interest income

would increase by 9.4% YoY, favored by higher interest rates. On the other hand, we expect leasing revenues to increase 4.9% YoY and an occupancy rate to 91.1%, like previous year. As a result, EBITDA would show an increase of 6.6% YoY to MXN 30.1 billion, reflecting a margin of 16.2% (+30bp), where we assume that operating costs would be decreasing due to lower energy costs and a lower impact from supply chain disruptions, which would be reflected in a gross margin of 31.5% in Liverpool (+0.1pp) and 32.0% in Suburbia (-0.5pp). In turn, we expect financial income to reach MXN 1.7 billion in 2023 vs MXN 2.3 billion in 2022, favored by higher interest rates. Thus, we expect net income to increase 10.2% YoY to MXN 16.9 billion.

Solid capital structure will continue

Currently, Liverpool has a total debt of MXN 25.6 billion (52% peso-denominated or 48% peso-hedged at a fixed rate), with an average interest rate of 7.84%, and an average maturity of 5 years. Regarding the leverage indicator, we anticipate that by the end of 2022 the company will have a Net Debt/EBITDA ratio of 0.1x (vs 0.3x in 2021) and -0.2x in 2023, contributing to the company's financial strength outlook. The dividend in 2022 amounts to MXN 2.45, which represents a yield of 2.7%, while for 2023 we expect a dividend of MXN 1.56, reflecting a yield of 1.7%. Finally, the total CapEx for 2023 is allocated at MXN 8.4 billion, where we expect the opening of 20 new stores vs 26 in 2022.

Company strategies for coming years

An important part of the company's long-term strategy is to achieve an Ecosystem Strategy by 2025, through loyalty programs and a greater number of services, where e-commerce is expected to increase to more than 40% (vs. 22% currently). In addition, PLAN (Plataforma Logística Arco Norte), which started 1Q22 with 1.6 million m² enabled space, seeks to generate efficiencies in white goods and furniture deliveries, as well as a long-term value proposition in cost and delivery. Among the ESG objectives, the company expects to reduce CO2 emissions to zero by 2040 and to recycle up to 100% of possible waste. It will also seek to find a better balance in water use to avoid unnecessary waste.

We set a PT of MXN 118.00, recommending BUY

We maintain a conservative stance, foreseeing a year with considerable obstacles to growth, as well as the possibility of economic recession. However, financial strength and business strategies should favor valuation. To calculate the theoretical value of Liverpool's shares, we used a Discounted Cash Flow (DCF) valuation model, obtaining a PT of MXN 118.00 for the company's shares. At that level, Liverpool would trade at 5.5x 2023E FV/EBITDA (vs 5.3x currently), below the L5Y average of 9.3x, as well as below the LatAm comparable companies average of 6.5x and global average of 7.6x, recalling that we consider a scenario of economic adversity. In our DCF model we used a WACC of 11.8%, which was calculated with a Beta of 0.7, Risk Free Rate of 9.7% (estimated 10-year bond of Mexico), and market premium of 6.0%. Residual value was calculated using a FV/EBITDA exit multiple of 7.6x, similar to the global peer's average. In our view, we believe that the write-down

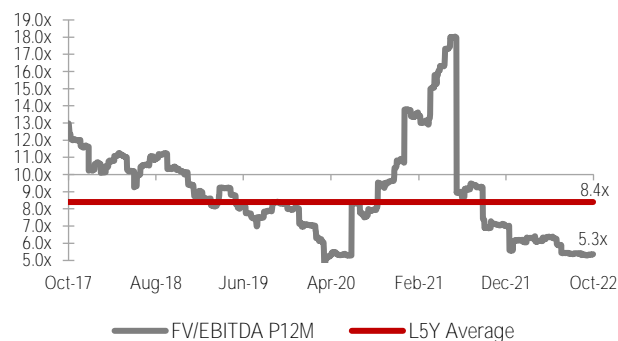
on the company is exaggerated, especially when considering that, even assuming a conservative stance, the upside potential is 27.1% over current prices; therefore, our recommendation is to BUY. We believe that, given the high interest rate environment a further revaluation would be limited for the time being, although some recovery cannot be dismissed.

DISCOUNTED CASH FLOW MODEL							
	2021e	2022e	2023e	2024e	2025e	2026e	Perp.
(+) EBITDA	30,142	32,468	33,767	35,118	36,171	37,257	
(-) Working Capital	(12,477)	(12,673)	(13,507)	(14,047)	(14,469)	(14,903)	
(-) Fixed Capital Investment	(6,623)	(7,298)	(7,663)	(8,046)	(8,448)	(8,870)	
(-) Taxes	(6,567)	(7,391)	(7,766)	(8,077)	(8,319)	(8,569)	
(=) Cash Flow	4,475	5,107	4,831	4,948	4,935	4,914	0
(+) Perpetuity	0	0	0	0	0	0	284,640
(=) FCFF	4,475	5,107	4,831	4,948	4,935	4,914	284,640
Risk-free Rate	9.7%				(+)FCFs Present Value		17,939
Market Risk	6.0%				(+) Perpetuity Present Value		145,629
Beta	0.7				= Enterprise Value		163,568
CAPM	14.1%				(-) Net Debt		(5,650)
					(-) Minority Interest		340
Cost of Debt	7.8%						
Tax Rate	30.0%				(=) Equity Value		158,258
Net Cost of Debt	5.5%				Shares Outstanding		1,342
Debt/Capital	26%						
					Target Price \$		117.91
WACC	11.8%				Current Price		92.81
EBITDA Multiple	7.6x				Upside Potential		27.0%

Source: Banorte

LIVEPOL- FV/EBITDA

Times



Source: Bloomberg, Banorte

RELATIVE VALUATION								
STOCK	P/B	P/E	P/E 2022E	P/E 2023E	FV/EBITDA	FV/EBITDA 2022E	FV/EBITDA 2023E	DIVIDEND YIELD
Mexico								
GRUPO ELEKTRA SAB DE CV	2.6x				22.0x			0.5%
GRUPO SANBORNOS SAB DE CV	1.5x	17.1x			9.0x			
GRUPO PALACIO DE HIERRO-1	0.8x	9.0x			4.9x			
Average	1.6x	13.1x			12.0x			0.5%
Mediana	1.5x	13.1x			9.0x			0.5%
Latam								
S.A.C.I. FALABELLA	0.8x	8.7x	11.6x	9.0x	7.0x	7.3x	6.3x	4.8%
CENCOSUD SA	0.8x	8.1x	6.4x	5.7x	5.2x	4.9x	4.6x	10.5%
LOJAS RENNER S.A.	2.9x	25.7x	22.2x	17.3x	13.3x	12.3x	9.6x	
FALABELLA PERU - COMMON								
RIPLEY CORP SA	0.3x	3.5x	6.1x	5.1x	10.8x	17.2x		3.1%
EMPRESAS HITES SA	0.2x	1.0x	2.6x	3.1x	3.5x	5.0x	5.3x	12.4%
Average	1.0x	9.4x	9.8x	8.0x	7.9x	9.3x	6.5x	7.7%
Median	0.8x	8.1x	6.4x	5.7x	7.0x	7.3x	5.8x	7.7%
EE.UU. y Canadá								
MACY'S INC	1.4x	3.5x	4.6x	4.7x	3.3x	4.2x	4.4x	3.4%
NORDSTROM INC	4.8x	8.8x	8.2x	7.7x	4.6x	5.8x	5.6x	3.8%
KOHL'S CORP	0.8x	5.7x	9.3x	8.3x	4.7x	6.6x	6.4x	7.0%
HUDSON'S BAY CO								
J.C. PENNEY CO INC								
DILLARDS INC-CL A	3.7x	6.3x	8.5x	13.0x	3.7x	5.0x	7.7x	0.3%
SEARS HOLDINGS CORP								
Average	2.7x		8.4x		4.1x	5.4x	6.0x	3.6%
Median	2.6x		8.0x		4.2x	5.4x	6.0x	3.6%
Europa								
INDUSTRIA DE DISEÑO TEXTIL	4.8x	18.8x	17.8x	16.9x	8.5x	8.2x	7.9x	2.8%
NEXT PLC	6.7x	8.6x	9.0x	9.3x	8.1x	7.4x	7.6x	3.9%
MARKS & SPENCER GROUP PLC	0.7x	6.6x	6.7x	6.8x	4.3x	4.2x	4.3x	
DEBENHAMS PLC								
Average	4.1x	11.3x	11.1x	11.0x	7.0x	6.6x	6.6x	3.4%
Median	4.8x	8.6x	9.0x	9.3x	8.1x	7.4x	7.6x	3.4%
Asia								
ISETAN MITSUKOSHI HOLDINGS L	1.0x	19.7x	27.2x	26.2x	16.1x	13.7x	12.0x	0.9%
J FRONT RETAILING CO LTD	0.9x	19.5x	20.5x	15.8x	10.1x	9.9x	9.0x	2.5%
TAKASHIMAYA CO LTD	0.7x	13.4x	20.8x	18.5x	11.2x	9.7x	9.1x	1.3%
HYUNDAI DEPT STORE CO	0.3x	5.7x	5.4x	4.5x	7.5x	6.9x	6.2x	2.0%
LIFESTYLE INTL HLDGS LTD	3.5x		14.8x	7.8x	15.1x	19.3x	16.3x	
Average	0.9x	14.6x	17.7x	14.5x	12.0x	11.9x	10.5x	1.6%
Median	0.9x	16.4x	20.5x	15.8x	11.2x	9.9x	9.1x	1.3%
Global								
Average	2.0x	10.5x	11.9x	10.6x	8.6x	8.7x	7.6x	3.9%
Median	1.0x	8.7x	9.0x	8.3x	7.8x	7.3x	7.0x	3.1%
EL PUERTO DE LIVERPOOL-C1	1.0x	7.5x	8.1x	9.4x	5.3x	5.5x	5.5x	1.5%
Premium/Discount vs Average	4.4%	-13.1%	-9.7%	12.7%	-31.9%	-24.1%	-21.1%	

Source: Banorte, Bloomberg

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 Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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Last-twelve-month activities of the business areas.

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Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

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None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

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.

Determination of Target Prices

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.

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History of PT and ratings

Stock	Date	Recommendation	PT
LIVEPOL	10/18/2022	Buy	\$118.00
LIVEPOL	07/26/2022	Buy	\$116.69
LIVEPOL	04/29/2022	Buy	\$113.97

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.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	Katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalia Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaias Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 1670 - 1899