

# LAB

Quarterly Report

April 23, 2020

## Leveraging opportunities arising from COVID-19

- Lab surpassed our estimates boosted by the new infant formula category, a solid performance in the OTC segment and the launching of a new line of antibacterial products due to COVID-19 outbreak
- Despite lower economic growth, based on which we will revise our estimates, LAB seems defensive in this scenario as a result of its focus on basic OTC drugs and Personal Care products

**2020 kicks off with a solid performance.** Genomma Lab's report was positive, above our expectations. Sales grew 6.3% y/y to stand at \$3.335 billion (Mexico: +9.7%; Latam: +4.8%; U.S: -0.4%), bolstered by the integration of the new infant formula business in Mexico, a solid sales increase in OTC drugs and the launching of a new line of antibacterial products as a result of the Coronavirus outbreak. Meanwhile, gross margin came pressured by 260bps to 61.8%, affected by the depreciation of Latin American currencies, which increased some raw material costs. Nevertheless, impressive expense leverage in Mexico offset such effect, as well as profitability contractions in the U.S. and Latin America. Thus, EBITDA grew 8.6% y/y to \$678 million with a 40bps margin expansion to 20.3%. Finally, net income grew 48.1% y/y to \$374 million explained by the solid operating performance and a comprehensive financing cost decrease (-68.7% y/y) due to lower interest payments and FX gains.

**Defensive play.** In our opinion, Lab's business segments –with potential to leverage arising opportunities in the current environment- and a possible vertical integration should prove to be defensive attributes against current scenario. Nevertheless, we will be monitoring a possible delay in the OTC plant certification because of the COVID-19 outbreak, as well as for the impact of a [lower economic growth](#).

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### Consumer and Telecoms

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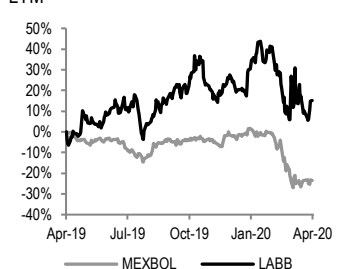
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#### BUY

Current Price	\$17.80
PT 2020	\$23.00
Dividend 2020	
Dividend Yield (%)	
Upside Potential	
Max – Min LTM (\$)	22.96 – 14.00
Market Cap (US\$m)	756.8
Shares Outstanding (m)	1,048.7
Float	60.4%
Daily Turnover (\$ m)	41.2
<b>Valuation metrics TTM</b>	
EV/EBITDA	9.0x
P/E	16.8x

#### Relative performance to Mexbol LTM



#### Financial Statements

MXN, million	2018	2019	2020E	2021E
Revenues	12,282	12,756	13,482	13,856
Operating Income	2,442	2,435	2,607	3,121
EBITDA	2,513	2,572	2,770	3,287
EBITDA Margin	20.5%	20.2%	20.5%	23.7%
Net Income	1,218	987	1,011	1,234
Net Margin	9.9%	7.7%	7.5%	8.9%
<b>Total Assets</b>	<b>18,118</b>	<b>19,333</b>	<b>20,698</b>	<b>21,319</b>
Cash	1,415	923	951	886
<b>Total Liabilities</b>	<b>10,675</b>	<b>11,088</b>	<b>12,521</b>	<b>13,097</b>
Debt	5,873	6,100	7,164	7,165
<b>Common Equity</b>	<b>7,443</b>	<b>8,245</b>	<b>8,177</b>	<b>8,221</b>

Source: Banorte with data from MSE

#### Valuation and financial metrics

	2018	2019	2020E	2021E
EV/EBITDA	9.3x	9.3x	8.9x	7.4x
P/E	14.8x	18.9x	18.4x	14.6x
P/Book	2.9x	2.6x	2.6x	2.6x
ROE	16.8%	12.6%	12.3%	15.0%
ROA	6.7%	5.1%	4.9%	5.8%
EBITDA/ Interest expense	4.8x	4.4x	5.4x	6.0x
Net Debt/EBITDA	1.8x	2.0x	2.2x	1.9x
Debt/Equity	0.8x	0.7x	0.9x	0.9x

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Document for distribution among public

## LAB – Results 1Q20

MXN, million

Concept	1Q19	1Q20	Var %	1Q20e	Diff% vs Estim.
Revenue	3,138	3,335	6.3%	3,237	3.0%
Operating Income	597	641	7.3%	605	5.9%
Ebitda	624	678	8.6%	644	5.3%
Net Income	252	374	48.1%	189	98.1%
<b>Margins</b>					
Operating Margin	19.0%	19.2%	0.2pp	18.7%	0.5pp
Ebitda Margin	19.9%	20.3%	0.4pp	19.9%	0.5pp
Net Margin	8.0%	11.2%	3.2pp	5.8%	5.4pp
EPS	\$0.24	\$0.36	48.1%	\$0.18	98.1%

Source: Banorte

### Income Statement (Million pesos)

Year	2019	2019	2020	Change	Change
Quarter	1	4	1	% YoY	% QoQ
<b>Net Revenue</b>	<b>3,138</b>	<b>3,263</b>	<b>3,335</b>	<b>6.3%</b>	<b>2.2%</b>
Costs of goods sold	1,116	1,205	1,273	14.1%	5.6%
Gross profit	2,022	2,058	2,062	2.0%	0.2%
General expenses	1,436	1,476	1,422	-1.0%	-3.6%
<b>Operating Income</b>	<b>597</b>	<b>623</b>	<b>641</b>	<b>7.3%</b>	<b>2.8%</b>
<b>Operating Margin</b>	<b>19.0%</b>	<b>19.1%</b>	<b>19.2%</b>	<b>0.2pp</b>	<b>0.1pp</b>
Depreciation	27	40	38	38.1%	-4.5%
<b>EBITDA</b>	<b>624</b>	<b>663</b>	<b>678</b>	<b>8.6%</b>	<b>2.4%</b>
<b>EBITDA Margin</b>	<b>19.9%</b>	<b>20.3%</b>	<b>20.3%</b>	<b>0.4pp</b>	<b>0.0pp</b>
<b>Interest Income (Expense) net</b>	<b>(237)</b>	<b>(258)</b>	<b>(74)</b>	<b>-68.7%</b>	<b>-71.2%</b>
Interest expense	158	134	125	-20.4%	-6.7%
Interest income	6	4	4	-28.7%	-1.5%
Other income (expense)	(40)	(91)	(96)	138.6%	5.2%
Foreign exchange gain (loss)	(46)	(36)	143	N.A.	N.A.
Unconsolidated subsidiaries	10	18	13	31.8%	-27.5%
<b>Income before taxes</b>	<b>370</b>	<b>384</b>	<b>580</b>	<b>56.7%</b>	<b>51.0%</b>
Income taxes	118	126	206	75.2%	63.4%
Discontinued operations					
<b>Consolidated Net Income</b>	<b>252</b>	<b>258</b>	<b>374</b>	<b>48.1%</b>	<b>44.9%</b>
Non-controlling interest				N.A.	N.A.
<b>Net Income</b>	<b>252</b>	<b>258</b>	<b>374</b>	<b>48.1%</b>	<b>44.9%</b>
<b>Net Margin</b>	<b>8.0%</b>	<b>7.9%</b>	<b>11.2%</b>	<b>3.2pp</b>	<b>3.3pp</b>
<b>EPS</b>	<b>0.241</b>	<b>0.246</b>	<b>0.357</b>	<b>48.1%</b>	<b>44.9%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>9,487</b>	<b>9,990</b>	<b>11,276</b>	<b>18.9%</b>	<b>12.9%</b>
Cash & Short Term Investments	1,402	923	1,370	-2.2%	48.4%
<b>Long Term Assets</b>	<b>9,398</b>	<b>9,342</b>	<b>9,630</b>	<b>2.5%</b>	<b>3.1%</b>
Property, Plant & Equipment (Net)	2,103	2,201	2,273	8.1%	3.3%
Intangible Assets (Net)	4,900	4,825	5,001	2.1%	3.6%
<b>Total Assets</b>	<b>18,886</b>	<b>19,333</b>	<b>20,906</b>	<b>10.7%</b>	<b>8.1%</b>
<b>Current Liabilities</b>	<b>6,283</b>	<b>5,627</b>	<b>6,614</b>	<b>5.3%</b>	<b>17.5%</b>
Short Term Debt	2,018	1,569	1,968	-2.5%	25.4%
Accounts Payable	3,138	3,070	3,530	12.5%	15.0%
<b>Long Term Liabilities</b>	<b>4,999</b>	<b>5,461</b>	<b>5,609</b>	<b>12.2%</b>	<b>2.7%</b>
Long Term Debt	4,055	4,531	4,265	5.2%	-5.9%
<b>Total Liabilities</b>	<b>11,282</b>	<b>11,088</b>	<b>12,223</b>	<b>8.3%</b>	<b>10.2%</b>
Common Stock	7,603	8,245	8,683	14.2%	5.3%
Non-controlling interest				N.A.	N.A.
<b>Total Equity</b>	<b>7,603</b>	<b>8,245</b>	<b>8,683</b>	<b>14.2%</b>	<b>5.3%</b>
<b>Liabilities &amp; Equity</b>	<b>18,886</b>	<b>19,333</b>	<b>20,906</b>	<b>10.7%</b>	<b>8.1%</b>
<b>Net Debt</b>	<b>4,672</b>	<b>5,177</b>	<b>4,862</b>	<b>4.1%</b>	<b>-6.1%</b>

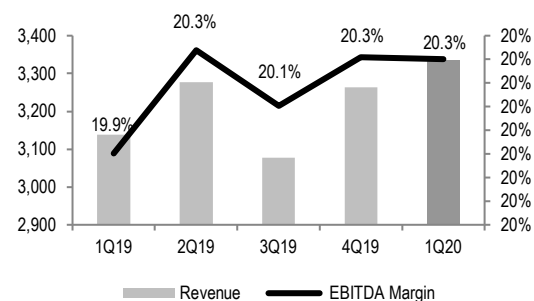
### Cash Flow

CF from Operating Activities	295.7	279.3	565.6
CF from Investing Activities	(231.4)	(370.4)	(136.3)
CF from Financing Activities	(62.9)	1,071.8	7.7
FX effect on cash	(14.6)	9.1	10.1
<b>Change in Cash Balance</b>	<b>(13.1)</b>	<b>989.8</b>	<b>447.1</b>

Source: Banorte, MSE.

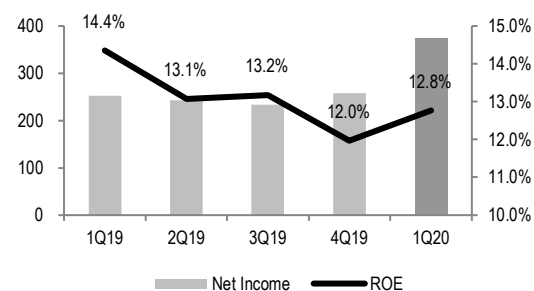
## Revenue & EBITDA Margin

MXN, million



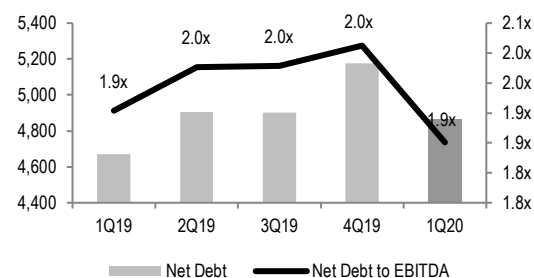
## Net Income & ROE

MXN, million



## Net Debt & Net debt to EBITDA ratio

MXN, million



## Performance by Region

Mexico								
	1Q19	Margin	4Q19	Margin	1Q20	Margin	% y/y	% q/q
OTC Sales	786.8	59.1%	791	60.0%	870.8	59.7%	10.7%	10.1%
PC Sales	543.5	40.9%	527.3	40.0%	588.6	40.3%	8.3%	11.6%
Total Revenue	1330.3	100.0%	1318.3	100.0%	1459.4	100.0%	9.7%	10.7%
EBITDA	194.2	14.6%	261.3	19.8%	341.8	23.4%	76.0%	30.8%

Latin America								
	1Q19	Margin	4Q19	Margin	1Q20	Margin	% y/y	% q/q
OTC Sales	556.9	38.6%	597.1	36.5%	611.6	40.4%	9.8%	2.4%
PC Sales	887.4	61.4%	1039.5	63.5%	902.6	59.6%	1.7%	-13.2%
Total Revenue	1444.3	100.0%	1636.6	100.0%	1514.2	100.0%	4.8%	-7.5%
EBITDA	394.2	27.3%	377.5	23.1%	302.8	20.0%	-23.2%	-19.8%

United States								
	1Q19	Margin	4Q19	Margin	1Q20	Margin	% y/y	% q/q
OTC Sales	203.7	56.1%	178.7	58.0%	223.1	61.8%	9.5%	24.8%
PC Sales	159.6	43.9%	129.6	42.0%	137.8	38.2%	-13.7%	6.3%
Total Revenue	363.3	100.0%	308.3	100.0%	360.9	100.0%	-0.7%	17.1%
EBITDA	35.7	9.8%	23.6	7.7%	33.8	9.4%	-5.3%	43.2%

## Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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	<b>Reference</b>
<b>BUY</b>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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## History of PT and Ratings

Stock	Date	Rating	PT
LAB	16/12/19	Buy	\$23.00
LAB	27/07/2019	Hold	\$19.00
LAB	21/01/2019	Hold	\$15.50
LAB	26/04/2018	Hold	\$22.00

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