

FEMSA (Buy, PT2020 \$164.00)

Flash: Expands into the US cleaning product distribution business

Fomento Económico Mexicano (FEMSA) announced that it has agreed to acquire Southeastern Paper Group (SPG) and SWPlus, companies located in South Carolina and Kansas, US, respectively, dedicated to the distribution of cleaning supplies and consumables for businesses. With this transaction, Femsa will strengthen its presence in this niche, after its incursion into the segment in early 2020 with the acquisition of WAXIE Sanitary Supply and North American Corporation (NAC). According to the company's statement, the combined income of the acquired companies -in the last 12 months- amounts to US\$380 million. Certainly, the closing of such operations is subject to competent authorizations, although Femsa expects to conclude them before the end of the current month.

Positive implication: Although the transaction is not significant for Femsa (representing 1.5% of market capitalization and consolidated revenues), and the company did not share further details regarding the amount being paid, we estimate that, based on the previous transaction of Waxie and NAC at 1x FV/Sales LTM, those of SPG and SWPlus could have been made at similar multiples, being lower than the 1.7x at which Femsa is currently trading, so we believe that this transaction would generate value for shareholders. Furthermore, we consider that the expansion achieved with these acquisitions is aligned with its corporate strategy of building a national distribution system, which began with the acquisition of a majority stake in WAXIE Sanitary Supply and North American Corporation. Consequently, it is worth noting that with these transactions the company seeks to continue expanding into adjacent businesses and geographies -as it has previously done in the pharmaceutical and gas station industries throughout the American continent-, leveraging previously built competencies, and diversifying its source of income and strengthening its geographic presence. Therefore, we believe that this news should be well received by investors, while we await further details on these operations.

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Document for distribution among the general public

Certification of Analysts.

We, Gabriel Casillas Olivera, 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, Valentin 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<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
FEMSA UBD	27/07/2020	Buy	\$164.00
FEMSA UBD	29/11/2019	Buy	\$211.00
FEMSA UBD	04/4/2019	Hold	\$192.00

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