Genomma Lab Q2 2025

Thursday, July 24, 2025

Greetings, ladies and gentlemen. Thank you for joining Genomma Lab's Second Quarter 2025 Earnings Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. As a reminder, this meeting is being recorded and will be available for replay from the Investor Relations section of Genomma's website following the call. I'll now turn the call over to Christianne Ibañez, Genomma's Head of Investor Relations.

Christianne Ibañez

Welcome everyone. On today's call are Marco Sparvieri, Chief Executive Officer, and Antonio Zamora, Chief Financial Officer. Before we get started, I'd like to remind you that the remarks today will include forward-looking statements, such as the Company's financial guidance and expectations including long-term objectives and forecasts as well as expectations regarding Genomma's business, assets, products, strategies, demand and markets.

These statements are subject to risks and uncertainties that could cause actual results to differ materially. They are also based on assumptions as of today, and the Company undertakes no obligation to update them as a result of new information or future events. Let me now turn the call over to Mr. Marco Sparvieri.

Marco Sparvieri, CEO

Good morning, everyone, and thank you, Chris.

Turning to Second Quarter results, Genomma's Second Quarter sales grew +0.5%, or +5.5% when excluding Argentina, reflecting a significant Argentine Peso depreciation and a weak beverage season in Mexico.

Worth-noting, the company's profitability remains solid. We delivered a +4.4% EBITDA growth with a +89 basis-point Margin expansion to 23.8%, driven our on-going productivity program. Genomma also delivered continued momentum acrros the P&L; although Net Income was impacted by hyperinflationary accounting adjustments following the -18.8% Argentine Peso depreciation coupled with a lower inflation, proforma Net Income increased +16.6% when excluding these non-cash effects.

These profitability levels and a 7-day improvement in cash conversion cycle drove a +64.6% free-cash-flow increase reaching $2,705 million in the trailing-twelve months.
Our business remains healthy, with 67% of our sales maintaining or gaining market share and 75% of sales outpacing inflation.

The following graph shows a -2.4 degrees Celsius drop in average temperatures during Mexico's peak beverage season, significantly impacting isotonic category performance in the region. In this context, SUEROX maintained its market share and outperformed the category, with sell-out down -4% versus a -20% Year-to-date category decline.

This slide outlines our traditional channel expansion across markets. Specifically for the Mexican market, we have accelerated our distribution expansion plans to mitigate weather impacts. Genomma opened 30 new routes in the Mexican northwestern region targeting higher temperature areas. We plan to open a total of 120 new routs nationwide over the next 12 months, with an expected ramp-up period of 18 to 24 months.

The next chart shows year-to-date performance by business unit in Mexican Pesos. Despite a challenging beverage season in Mexico, the Beverage division continues to drive growth, with market share gains in LatAm and expanding U.S. distribution. Personal Care grew mid-single digits, led by the Asepxia relaunch and increased Haircare sales. OTC performance was impacted by hyperinflationary accounting from Argentine Peso depreciation, with Analgesics most affected.

The next chart presents year-to-date performance by country in local currency. Argentina is growing in line with inflation, supported by continued market share gains in Ibu 400, Treg, and SUEROX, while lapping a tough comparison from last year's Tafirol 1G subsidy. Most LatAm countries are in positive territory, except Chile, which remains challenged. In the U.S., Hispanic consumption is disrupted, and we do not expect the market to recover into growth this year.

The next graph shows a sequential Gross Margin improvement supported by a favorable sales mix and manufacturing cost efficiencies. Gross Margin has expanded +6.6 points over the last couple of years – a testament to the impact of our productivity initiatives and manufacturing capabilities.

The next graph shows a steady sequential EBITDA Margin, with a +3.9 point-expansion over the past couple of years, supported by our ongoing productivity program.

Looking ahead, we will continue to execute our growth projects by reinvesting excess profits and cash while maintaining a 24% average EBITDA Margin.

The following chart highlights our acceleratin momentum down the P&L, with EPS significantly outpacing sales and EBITDA growth, achieving a +19% cagr over the past 5 years.

This is resulting in a higher free cash flow where we have reached a 67% CAGR over the past 5 years, while returning a hefty dividend to our shareholders.

Cash Conversion Cycle reached 115 days, a 7-day improvement driven by a 4-day reduction in receivables and a 10-day decrease in inventories, following the roll-out of our inventory build-up post beverage season in Mexico. A decrease in days payable reflects the company's transition to in-house OTC manufacturing in Mexico.

All this efficiency has resulted in a much better ROIC, a central variable for our leadership team. In the chart you can see the evolution of ROIC over the past 4 years.

Our current business model is delivering 1.4 times more value for every invested Mexican Peso than 4 years ago. ROIC will remain a key metric throughout investments in growth projects.

As we enter the Second half of the year, we want to provide visibility into our year-end 2025 expectations. Ongoing FX headwinds and related hyperinflationary adjustments are expected to bring full-year sales growth to near zero. Q3 is likely to be the weakest Quarter, with a projected single-digit contraction. Despite this, we remain confident in sustaining profitability, targeting an average 24% EBITDA Margin for the year.

As new routes ramp up, distribution expands, and PRODUCT relaunches advance, we expect gradual growth in 2026, keeping us on track toward our mid-term double-digit sales GROWTH target. Our ongoing productivity program will continue to support our 24% EBITDA margin throughout this transition.

Our Capital Allocation priorities remain focused on reinvesting excess profitability and cash into the core business, with Ps. 500 million in CAPEX projected for year-end 2025. Investments will fund the commissioning of the new SUEROX production line, our new plastics plant, and the expansion of the central warehouse. CAPEX is expected to increase in the Second half of the year, with no additional needs anticipated for 2026. These projects are designed to support long-term growth. The company plans to maintain its 800 million Mexican Peso annual dividend in Quarterly installments, with excess cash allocated to strategic buybacks to enhance total shareholder return.

Let me now provide more detail on the initiatives underway to gradually improve sales growth. We remain confident in the company's long-term potential-- — momentum is building, and the outlook is compelling.

First, some historical context. Following a high-growth post-IPO phase, the company faced significant profitability challenges. Current management led a deep operational restructuring, during which sales remained flat as strong financial and operational controls were implemented. With these foundations in place, the company reignited profitable growth through expanded go-to-market, productivity, and new manufacturing capabilities. Today, we are entering a new growth chapter — our Iconic Product phase.

Our growing market share still has significant room to expand across the large categories where we operate. As this chart shows, our current shares remain small relative to category size, highlighting the opportunity ahead. Sustained gains will require a competitive focus with a strategic edge.

I'd like to highlight the key competitive advantages that Genomma is levering to drive sales growth. our edge lies in three areas: firstly on Genomma's capability to develop iconic products; Secondly, on its speed-to-market and agilty to adjust to market feedback faster than the competition; and thirdly on an impecable execution in the point-of-sale underpinned by a culture of excellence.

As we sharpen our focus on growth, we are doubling down on these stregths. For 2025–2026, we have laid out a clear roadmap for brand relaunches and innovations, centered on clean, healthy, high-performing formulas in minimalistic aesthetic packaging with fewer, more impactful messages. This shows a glimpse of the future state of our portfolio, reflecting refreshed brands and improved value proposition.

We've already begun with Asepxia. The brand was relaunched in Mexico with an improved formula, refreshed design, and expanded positioning—from facial acne treatment to full-body daily care. Leveraging our speed-to-market capabilities, we executed in just seven months from development to shelf. Execution was strong: Asepxia moved from a pharmacy niche to the general soap aisle, with increased shelf presence, in-store media support, and a price point well below category leaders. The relaunch continues to scale in Mexico, with Brazil set to follow next year.

This graph highlights Asepxia's sustained post-relaunch sell-out growth. Green bars represent weekly sell-out in the current year, while the gray area shows the prior year. In Q2 2025, Asepxia achieved 27% sell-out growth in Mexico, and 15% year-to-date.

As we advance our product relaunches, we're seeing strong momentum in OTC registrations, with submissions since 2023 now nearing approval — further strengthening our innovation pipeline. We expect to bring our re-launches and innovations to market in just 10–18 months, underscoring the organizational agility that sets Genomma apart.

This agility allows us to act as first-movers, identifying emerging fragmented trends and translating them into accessible, mass-market solutions—capturing consumer demand ahead of competitors. Finally, our proven point-of-sale execution will be critical to turning this strategy from plan to measurable success.

As we navigate macroeconomic headwinds in 2025, we remain sharply focused on executing our growth initiatives. The team is energized by the potential of our new Iconic Product phase and fully committed to delivering on our growth ambitions.

Before handing the call over to Antonio, I want to thank our team for your focus and dedication, and i want to thank our investors for your continued trust and support.

Antonio Zamora, CFO

Thank you, Marco, and good day, everyone.

Consolidated Financial Results Q2'25

On a consolidated basis, Genomma Lab reported Net Sales of 4,676 million Pesos, representing a 0.5% increase year-over-year, or 0.3% on a like-for-like basis, which excludes our hyperinflationary subsidiary.

The Quarter's performance was negatively impacted by an 18.3% depreciation of the Argentine Peso vs the Mexican Peso, coupled with a soft beverage season in Mexico—a trend many of you are likely aware of.

Offsetting these headwinds was strong sales growth in the Brazil, the Andean Cluster, Central America, and the U.S.

Excluding Argentina, Second-Quarter net sales increased by 5.5%.

As we all know, under IFRS accounting standards (IAS 29 and IAS 21), the results of Argentina from the first Quarter must be restated using these standards in order to express the financials of this subsidiary using the value of the ARS as of June 30.

The inflation during the Second Quarter was 6.01%, while the devaluation of the Argentian Peso vs the Mexican Peso during the Second Quarter was 18.3%.

The gap between inflation and devaluation implied a negative accounting impact as a result of the restatement of the first Quarter of Argentina.

Excluding Argentina, all of the other countries that are based on stable currencies, reported a topline growth of 5.5%

EBITDA margin reached 23.8%, up 89 basis points or 4.4% year-over-year. This improvement reflects ongoing gains from our company-wide productivity initiatives and manufacturing cost efficiencies. Additionally, a favorable sales mix contributed to the margin expansion.

Net Income for Q2 2025 totaled 355 million Pesos, a 43.8% decline year-over-year, primarily due to non-cash FX and inflationary losses related to our monetary position in Argentina.

It is worth noting that the main driver of the decline in Net Income comes from items that I will explain.

As the Mexican Peso appreciated against all currencies between March 31st and June 30th, a non-cash, non-operational and non-recurring impact was recorded in our P&L, result of translating the Balance Sheets.

This currency trend was mirrored across several countries where we operate. The most significant impact was seen in Argentina.

However, when adjusting for these non-cash and hyperinflationary effects, proforma Net Income grew by 16.6% year-over-year, driven by higher operating income and lower net interest expenses. Proforma EPS came in at 0.67 Pesos, also a 16.6% increase.

Cash Conversion & Free Cash Flow

Genomma achieved a 115-day Cash Conversion Cycle in Q2, marking a seven-day improvement versus the same period last year. This was driven by a 10-day decrease in inventory days and a four-day reduction in receivables.

As Marco noted, this improvement significantly contributed to a 65% increase in trailing-twelve-month (TTM) Free Cash Flow, which reached 2,705 million Pesos. We converted 14% of TTM Net Sales into free cash flow during the Quarter.

Our days payable decreased by seven days, from 103 to 96 days, as we continue transitioning to in-house OTC manufacturing in Mexico.

Regional Performance

Mexico:

Net Sales in Mexico declined 1.3% year-over-year, impacted by the weak beverage season amid a challenging macroeconomic backdrop and unseasonably cool weather.

That said, these challenges were partially offset by:

- Double-digit growth in **OTC** sales, with strong sell-out and market share gains in our Analgesics and Cough & Cold categories.
- **Personal Care** growth led by double-digit Haircare sales, mixed Skincare results, and ongoing double-digit growth in Asepxia following its relaunch.
- **Infant Nutrition** also posted strong double-digit growth, driven by improved fill rates and market share gains in key formulas.
- **SUEROX** maintained market share with just a 3.7% sell-out decline during the first half of 2025, notably outperforming the broader 20% contraction in Mexico's isotonic category.

Mexico's EBITDA Margin rose 207 basis points to 24.6%, driven by the productivity initiatives previously discussed.

Before we review the performance of our International subsidiaries, I will be presenting a brief overview of the exchange rate environment, to provide important context for our Second Quarter performance.

United States

On a year-over-year basis, the Mexican Peso depreciated double digit against the US dollar. Genomma's Net Sales in the United States increased 11.2% in Mexican Pesos terms, primarily due to favorable FX effects. In local currency, sales almost 1%.

This modest growth reflects ongoing beverage expansion and strong Haircare performance, despite broader macroeconomic pressures and softer Hispanic consumer sentiment.

EBITDA Margin in the U.S. reached 15.8%, a 204-basis-point improvement year-over-year, highlighting continued productivity gains.

Latin America:

Excluding Argentina, Net Sales in Latin America rose 10.5%, driven by solid performance in Brazil, Central America, and the Andean Cluster.

However, EBITDA Margin for the region, including Argentina, was 24.7%, down 44 basis points, primarily due to hyperinflation accounting impacts in Argentina.

In Argentina, local currency sales increased 37% year-over-year, in line with inflation, highlighting stable underlying demand. However, due to hyperinflationary accounting rules, Argentina's net sales declined 14.2%, driven by hyperinflation adjustments and an 18.7% currency depreciation.

Capital Structure and Allocation

We closed the Quarter with a leverage ratio of 1.0 x Net Debt to EBITDA, maintaining ample financial flexibility.

On June 3, the Company successfully issued 1.2 billion Pesos in unsecured Mexican corporate bonds (Cebures). These were rated 'AA+' by both Fitch and HR Ratings agencies, and the offering was 1.25x oversubscribed.

Proceeds from these transactions were used to optimize our debt maturity profile, including the early amortization of existing debt.

On June 11, we completed the full early amortization of LAB-23, totaling over 1 billion Pesos, and also repaid 400 million Pesos in bank debt ahead of schedule.

Our debt maturity profile has significantly improved as a result of these issuances in the debt capital markets. Let us show you the debt maturity profile pre and post refinancing, where you will see an optimized structure.

Capital allocation during the Quarter also included:

- Our 12th consecutive Quarterly cash dividend of 200 million Pesos, waspaid on July 1.
- A share repurchase of 4.6 million shares, totaling 104 million Pesos.
- Ongoing investment in the business included Capex for manufacturing equipment such as commissioning of our new SUEROX production line, the expansion of our Central Distribution Center and the investment in new packaging lines to drive additional future productivity.

Closing Remarks

To conclude, as Marco mentioned, Q2 results underscore the resilience and adaptability of Genomma's business model, even amid macroeconomic challenges.

Despite facing FX pressures and other external headwinds, we delivered strong underlying performance, with EBITDA margin expansion, driven by favorable mix, cost control, and productivity gains.

These results are aligned with our strategic objective to maintain a 24% average EBITDA Margin while scaling investments in core growth areas.

Our working capital improvements and 65% FCF increase reflect disciplined execution and ongoing capital discipline. We also enhanced our debt maturity profile through proactive refinancing and early repayments.

Looking ahead, while the macro environment remains dynamic, we are confident in our ability to navigate volatility, sustain momentum, and deliver long-term value for shareholders.

Thank you once again for your trust and continued support. I'll now turn it over to the operator to begin the Q&A session.

Q&A

Operator: Thank you Antonio, we will now begin the question-and-answer session. To ask a question you may raise your hand using the icon "raise your hand" located at the bottom of your screen. To withdraw your question, press the same icon at any time. This will be required in order to allow you to turn on your microphone and ask your questions.

One moment please while we hold for questions.

<u>Operator</u>: Thank you, our first question comes from Alejandro Fuchs with Itau. Please turn on your microphone to proceed with your question.

Alejandro Fuchs, ITAU

Thank you, operator. Hola, Marco, Antonio, Christianne and team, thank you for the space tor questions. I have two quick ones, if I may. The first one for Marco on the top line, especially 2026, I wanted to see, Marco, if you can elaborate a little bit more on the top line growth.

You mentioned double-digit slowly going there next year. Maybe on a geographical basis, do you think that this top level growth is going to come, let's say, from an Argentine recovery.

Is this mainly a Suerox recovery and OTC? How do you see Mexico? Maybe if you can elaborate a little bit more into what's driving the growth into next year. And also, thank you very much for all the detail on the release per category, per country. I thought that was very helpful. That will be my first one, and then I have a follow up. Thank you.

Marco Sparvieri, CEO Genomma Lab

Yeah. Thank you, Alejandro. So we have several buckets of growth that I foresee for next year. The first one has to do with all the initiatives that we have both in the OTC portfolio and the Personal Care portfolio. We have a significant amount of relaunches in Personal Care and a lot of innovation coming in in OTC. Those projects will be impacting all the markets across in different timings, but it will impact from Mexico all the way down to Argentina, okay? So that's the first bucket of growth.

The second one it's Argentina. I think, I hope that we're going to see the worst of the devaluation this year. And we are expecting -- actually, we are forecasting the third quarter with a very strong devaluation of the Argentine peso, almost reaching the cap that the government put in place. We expect that, that cap will remain for the following years. And so, I don't expect that the depreciation of Argentina will be impacting us in 2026. That coupled with the fact that we are growing market share right now in most of the categories where we compete in Argentina, we really expect Argentina to be a source of growth for 2026.

And the third bucket of growth is mostly focused in Mexico where that -- and that has to do with Suerox. And we are investing heavily this year in opening new routes of distribution and significant efforts on gaining more distribution in places where our numerical distribution has historically been a little bit too low, okay?

So the three efforts that we expect to hit in '26[ph] are, I will repeat, all the projects of innovation across the world, OTC and Personal Care. Argentina, we really expect it to be a source of growth for next year. And Suerox Mexico from a distribution point of view. And if you add to that, that hopefully we have a better summer season, then I think Suerox Mexico will be a very important source of growth for next year.

Alejandro Fuchs, ITAU

Thank you, Marco.

Marco Sparvieri, CEO Genomma Lab

The other piece that I expect in 2026 to impact the business positively is the huge effort we are doing in creating this digital capability to drive demand. So that would be the fourth.

Alejandro Fuchs, ITAU

Perfect. That was super clear. I'm going to do a follow-up maybe to Antonioo real quick on buybacks. I believe on the cash flow statement, on the release in the buyback line, there's a cash inflow to the company. But both on the release and here on the prepared remarks, you mentioned that you bought back 4.6 million shares. So I want to see, does this mean that you sold some of those shares back to the market and there was no canceling of them? Or is this a timing like the dividend that maybe was done on July? So maybe if you could explain to me, Tonio, a little bit more on the buyback, that would be very helpful. Thank you.

Antonio Zamora Galland, CFO Genomma Lab

Thank you, Alex. No, we have not sold the shares. We believe that, at the current valuation, obviously it's an excellent opportunity to keep on accumulating our own shares and eventually to the cancellation. We haven't done the cancellation this year yet.

So, no. I think it has more to do with the timing of the dividend because the dividend for the second quarter, we ended up paying that on July Ist and shares that were bought by key executives from the Company. We are net buyers and we will continue to do buybacks and eventually when the board decides, do the share cancellation.

Alejandro Fuchs, ITAU

Super clear. Thank you very much.

Antonio Zamora Galland, CFO Genomma Lab

Thank you, Alex.

Operator

Thank you. Our next question comes from Antonio Hernandez with Actinver. Please turn on your microphone to proceed with your question.

Antonio Hernandez, ACTINVER

Hi, good morning. Thanks for taking my question. Just a quick one regarding CapEx expectations going forward. I mean, because of these different moving pieces in terms of Suerox distribution --more distribution, just as you mentioned, maybe other initiatives. What are your CapEx expectations going forward? Thanks.

Marco Sparvieri, CEO Genomma Lab

Thank you, Antonio, for the question. We expect the third quarter and the fourth quarter to be heavy on CapEx, mainly behind the construction of the new distribution center, the payment of the second Suerox line and the completion of the acquisitions that we need to make for the plastics, the injection plant that we are building in San Cayetano. After the third and the fourth quarter, we expect CapEx to be reduced again in 2026 to its normal levels.

Antonio Hernandez, ACTINVER

Okay, thanks for that color. For this second half of the year, then this ramp-up, what does that translate into -- Can you provide maybe an estimate of how much will CapEx increase for the second half of the year?

Marco Sparvieri, CEO Genomma Lab

Yes, we presented. I think, it was in the range of MXN500 million for the full year.

Antonio Hernandez, ACTINVER

Okay, thanks for the color. Have a nice day.

Operator

Thank you. Our next question comes from Froylan Mendez from J.P. Morgan. Please turn on your microphone to proceed with your question.

Froylan Mendez, J.P. Morgan

Hello, Marco, Antonio, Christianne, thank you very much for taking my question. Kind of a follow-up to one of the -- pf my colleague's previous question on the digital advertising channels that you mentioned also as a bucket of growth. Can you dig deeper into specifically what are you doing to conquer these channel? And what are the products -- that the products most dependent on these digital marketing channels?

And as a second question you mentioned this new iconic brands. Does this mean going forward further simplification of the portfolio, focusing obviously on Suerox, other very specific OTCs, like even simplifying more of the portfolio? And would this come at the expense of the agility to capture incipient consumer trends that you have had in the past, like being more concentrated, more focused, giving more time to develop a specific product? Will that entail that you might meet some of the incipient consumer trends and bring new products to the market in a slower pace than before? Thank you.

Marco Sparvieri, CEO Genomma Lab

Thank you, Froylan. No, on digital, I think we are creating a capability that no other company has. We think we estimate that we are going to be able to create 100 contents or assets per day to advertise in digital. So I think, what we have done with television in the last decade or so, we are going to be able to do in digital.

And regarding to your question on which products are more appealing to digital, I mean there's some obvious brands that are more appealing to younger people like Asepxia. But in reality, we all know that television's effectiveness is decreasing across the market in different pacing. But the overall trend is that television effectiveness is decreasing and that people are spending more and more time in social media and platforms and so on, YouTube. So it's really important for the company that we finish this project, which I think is going to happen in the next month or so, and that we put it in place and put it to work at full steam. And I think you're going to see a very strong impact in 2026. I don't know if that clarifies the question.

Froylan Mendez, J.P. Morgan

Very useful, Marco. Thank you.

Marco Sparvieri, CEO Genomma Lab

Yeah and we will continue to drive productivity across our portfolio.

We're going to be accelerating the pacing of innovation across the board. But at the same time, we're going to be reducing or eliminating the SKUs or brands that are unproductive. So it's not that we're just doing one or the other because we don't want to end up where we were three or four years ago with like thousands of SKUs, unproductive SKUs. So we're doing this very dilligently.

Froylan Mendez, J.P. Morgan

Excellent. Thank you so much, Marco.

Operator

Thank you. Our next question comes from Roberto Nava with GBM. Please turn your microphone on to proceed with your question.

Roberto Nava, GBM

Hi. Thank you, Marco, Antonio and Christianne. I wanted to ask you, given this Price volatility in Argentina, how are you mitigating currency risk ahead of the expected improvement in 2026? Are you relying on hedging pricing actions or other operational levels?

Antonio Zamora Galland, CFO Genomma Lab

Thank you for your question, Roberto. Generally speaking, Genomma has a natural hedge because we operate in 18 countries, so it is - on a long-term basis, we have that natural hedge.

And actually, when the Mexican peso depreciates, our numbers are actually a little bit better, okay? So the natural hedge is there. What we cannot manage is huge fluctuations with the Argentine peso. And as you and everybody knows, there are no hedging instruments that make sense, especially with that specific country. So I think that the Argentine Government has done a tremendous job in terms of lowering inflation and you can see that the currency has been somewhat stable. Unfortunately, that didn't happen this quarter. It's very hard to do any hedging against that currency.

Having said this, as I said earlier, generally speaking, we have a very diverse portfolio of countries, categories, etcetera, we don't need to hedge anything in particular. However, if there are big FX swings, we do have to record non-cash, non-operational, non-recurrent charges when we translate the balances from the different subsidiaries. But again, it's non-cash. It's the same situation that we saw last year.

In the second quarter 2024, we reported MXN126 million in FX gains. It was a gain, but it was also a "non-cash" gain. Whether they are gains or a losses, all of them are non-cash.

So I think that it is important to talk about cash flow generation. We increased 65% free cash flow from the business.

Roberto Nava, GBM

Thank you very much.

Operator: That concludes our Second Quarter results conference call. Thank you for your attention.