

March 31, 2023

Arcor

Arcor, together with its subsidiaries, is a multinational company that produces a wide range of consumer staples products (candies, chocolates, biscuits, etc.) and industrial products (recycled paper, corrugated cardboard, flexible film printing, corn syrup, industrial ingredients, plant-based sweeteners, etc.), in Argentina, Brazil, Chile, Mexico, and Peru, and sell them in more than 100 countries worldwide. Arcor is one of the leading consumer goods companies in Latin America together with Bagley Latinoamérica S.A., a company formed with the Danone Group which Arcor manages by owning 51% of the capital. In addition, the company has a 49% ownership stake in the leading dairy company Mastellone Hnos. In a recent investment, Arcor is also present in Angola with a 50% stake in Tucor, an industrial plant that produces chocolates, candies, and biscuits to supply the African market.

Sales

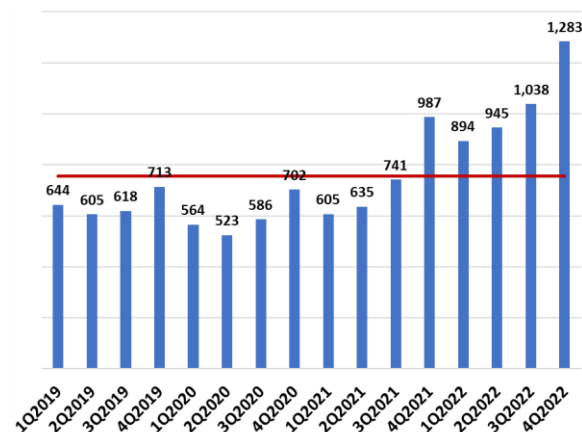
We will analyze the company's results in a consolidated form. Additionally, because Arcor has a presence in foreign markets and its assets and liabilities are mostly denominated in dollars, sales and results will be also reported in dollars using the average or closing official exchange rate, as appropriate for each case.

Arcor recently announced its results for the 2022 fiscal year. Total sales reached USD 4.16 billion, representing a 40% annual increase compared to 2021 and a 75% increase compared to 2020. Because the inflation rate was greater than the depreciation rate (94.8% y/y vs 72.5% y/y), inflation-adjusted sales variation was 7% compared to 2021 and 20% compared to 2020.

Looking at the graph below, the last quarter of the year, which is usually seasonally the one with the highest demand for products, has been particularly exceptional. Sales in 4Q2022 reached USD 1.28 billion, 24% higher than the previous quarter and

30% higher than the same period of the previous year.

Quarterly sales in millions of dollars

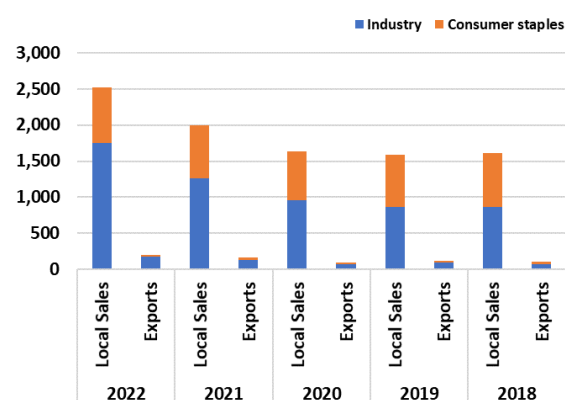


Source: Sekoia Research based on Arcor presentations.

As we highlighted in our previous report, after a quick post-pandemic recovery, the expansion of Arcor's businesses has positively impacted the volumes sold. In 2022, the increase in sales was mainly explained by higher volumes sold in almost all local segments and the recovery of sales abroad in businesses that had not yet fully recovered from the pandemic.

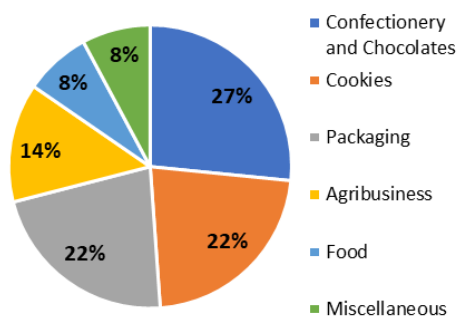
The company sold almost 2 million tons of industrial products in terms of volume, which was 38% more than the previous year. In consumer products, the increase was 5%, reaching just over 800 thousand tons sold.

Thousands of tons sold



Source: Sekoia Research based on Arcor presentations.

Total sales by business



Source: Sekoia Research based on Arcor presentations.

In Argentina, the Candies and Chocolates, and Cookies segments increased sales volumes of "on the go" consumption, thanks to new products and new advertising campaigns. In addition, volumes in the Agribusiness segment had a strong increase. Arcor's strategic alliance with the Ingredion Group (a leading North American multinational in the global ingredients industry) at the beginning of 2021 incorporated two new industrial plants and allowed for another year of growth in sales of syrups, starches, specialties, and byproducts. In the Packaging segment, sales of all business lines increased, with the production of industrial bags standing out after the start-up of a new production plant, whose investment had been made in 2021.

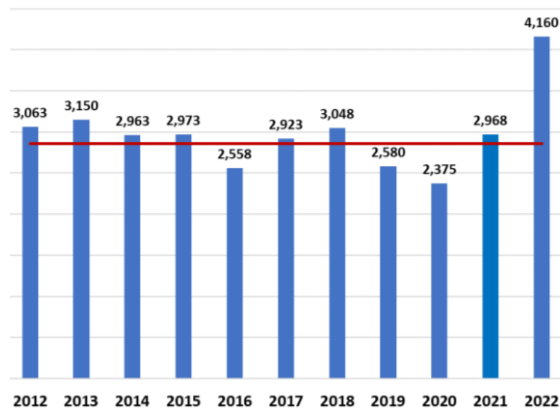
Arcor also had a good international performance. Brazil recovered levels of sales in candies, chocolates, and cookies. In turn, in agribusiness, driven by the agreement with Ingredion, there were higher exports of sugar, molasses, and organic sugar.

Finally, another noteworthy news on the international front during 2022 was the inauguration of the largest chocolate, candy, and cookie factory in Angola in June. The plant was the result of an agreement between Arcor and the Webcor Group, an agro-industrial company with a strong presence and knowledge of the Angolan market. With an investment of USD 45 million, an industrial building of 12,000 m2 was built. As part of this agreement, semi-finished products and raw materials are exported from Arcor's plants in Argentina to supply Angola's industrial operation. The new plant seeks to

deepen Arcor's internationalization in a continent that is expected to have great growth potential in the coming years.

In summary, 2022 closed with record total sales, well above the historical average of the last ten years of USD 2,86 billion.

Annual sales in millions of dollars



Source: Sekoia Research based on Arcor presentations.

Analyzing sales by geographical segmentation, Argentina represented 72% of revenue in 2022, similar to previous years. Sales in foreign markets computed the remaining 28%. As mentioned earlier, Brazil had a strong boost, growing 46% compared to the previous year, and agribusiness exports nearly tripled thanks to Ingredion and Webcor associations.

Arcor (mill. of dollars)	2022	% Seg	2021	% Seg	Var (%)	2020	% Seg	Var (%)
Argentina	3,011	72%	2,103	71%	43%	1,778	71%	69%
Brasil	345	8%	236	8%	46%	221	9%	56%
Andean Region	436	10%	343	12%	27%	283	11%	54%
North, Ctral. and Overseas	169	4%	145	5%	16%	107	4%	57%
Southern Subsidiaries	156	4%	126	4%	24%	118	5%	32%
Foreign Agribusiness	42	1%	15	0%	190%	-	-	-
Others	0.1	0%	0.01	0%	1001%	0.04	0%	157%
Total	4,160	100%	2,968	100%	40%	2,507	100%	66%

Source: Sekoia Research based on Arcor presentations.

EBITDA and Margins

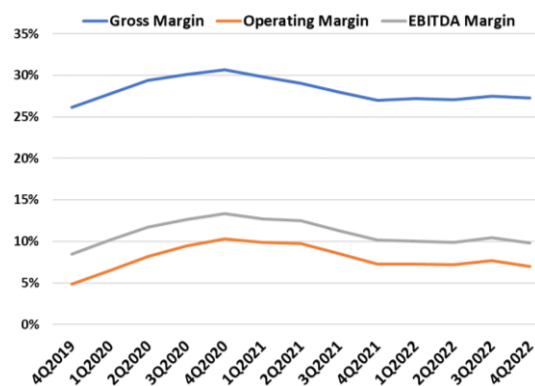
In 2022, Arcor reached an EBITDA of USD 407 million, an increase of 35% compared to the previous year and 28% compared to 2020. These percentages were slightly below the sales growth. Margins remained stable compared to 2021, although they fell by around 350 basis points compared to 2020. Looking at the chart below, the operating and EBITDA

margins have been deteriorating in recent quarters despite good sales performance.

Arcor (mill. of dollars)	2022	2021	Var (%)	2020	Var (%)
Sales	4,160	2,968	40%	2,375	75%
Cost of sales	3,019	2,173	39%	1,652	83%
Gross profit	1,136	801	42%	729	56%
Operating profit	290	217	34%	246	18%
EBITDA	407	301	35%	318	28%
Gross margin	27%	27%	31 bp	31%	-338 bp
Operating margin	7%	7%	-33 bp	10%	-337 bp
EBITDA margin	10%	10%	-35 bp	13%	-359 bp

Source: Sekoia Research based on Arcor presentations.

Margins per quarter (LTM)



Source: Sekoia Research based on Arcor presentations.

This effect was partly explained by the increase in the consolidated cost and expense structure compared to the increase in revenue. The official exchange rate moving behind inflation has been affecting Arcor's operating results. It is more representative if we take a look at EBITDA in pesos in real terms. In 2022, it fell by -1% compared to 2021. The 7% sales growth was more than offset by the increase in operating expenses, highlighting the 22% increase in administrative expenses and the 3% increase in marketing expenses.

Debt profile

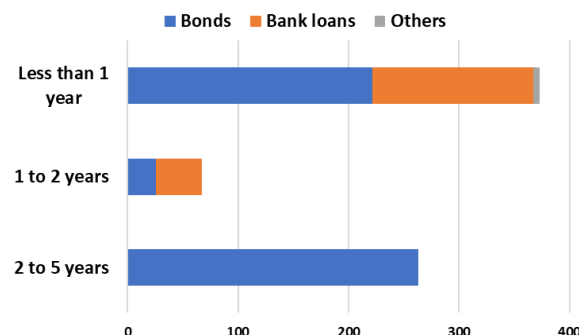
At the end of 2022, the company had a total financial debt of USD 576 million. It fell 6% compared to the previous quarter and 7% compared to the end of 2021. The debt consisted mainly of corporate bonds (64% of the total) and bank loans (35%). Financial debts are mostly denominated in foreign currency: 64% is in dollars, 4% in Brazilian reals, and 1% in

Chilean pesos. The remaining 32% of the debt is denominated in Argentine pesos.

Arcor has 4 outstanding bonds; Class 9 and 18 denominated in USD with NY law; the BADLAR peso class 16 by 2023; and the UVA peso ON class 17 with a 2025 maturity. The Class 9 bond has a 6% coupon paid semi-annually and fully amortizes in July 2023, while the Class 18 bond has an 8.25% coupon paid semi-annually and a sink schedule of 7 semi-annual installments of 14.3% starting October 2024. Both bonds represent 44% of the financial debt.

The 2027 bond was issued in 2022 as a result of the debt exchange offer proposed for the 2023 NY Law bond. Investors who opted for Option B received USD 1,020 of the new class for each USD 1,000 of the 2023 maturity. Those of Option A received new bonds and cash. The exchange had a broad acceptance, with the agreement of 74.5% of the creditors. Of the USD 500 million of nominal value of the old series only a remainder of USD 128 million was left, USD 265 million in the new series 18 was issued, and USD 112 million was paid in cash.

Financial debt by class and maturity



Source: Sekoia Research based on Arcor presentations.

Arcor's net financial debt, that is, debt minus cash and liquid financial assets of USD 128 million, closed 2022 at USD 576 million, 6% lower than the previous quarter and 7% less than the end of 2021.

It should be noted that 68% of the company's cash and equivalents are denominated in foreign currency (52% in dollars and 16% in other currencies). Like the debt, the portion denominated

in pesos represents 32% of the total. Based on net debt data, it represented 1.4 times the 2022 EBITDA, a very low level of leverage thanks to the lower financial debt. Likewise, looking at interest coverage, it represented 2.2 times its annual payment. In this case, the ratio deteriorated compared to previous periods, in part due to the effect of debt interest payments in pesos measured at the official exchange rate and the increase in the interest coupon of the new hard dollar NY Law issuance.

Arcor (mill. of dollars)	4Q22	3Q22	Var (%)	4Q21	Var (%)
Total debt	704	755	-7%	809	-13%
Cash and equivalents	128	141	-9%	189	-32%
Net debt	576	614	-6%	620	-7%
EBITDA (LTM)	407	404	1%	301	35%
Net debt/EBITDA	1.4	1.5	-0.1	2.1	-0.6
Interest Expense (LTM)	187	150	24%	124	50%
EBITDA/Interest	2.2	2.7	-0.5	2.4	-0.2

Source: Sekoia Research based on Arcor presentations.

On the other hand, to take into account the delicate situation of the country's FX reserves, we can consider a scenario of greater stress, in which the Central Bank does not allow companies to access the official dollar exchange rate for the payment of their debts. In this case, the company would have to obtain dollars at the blue-chip swap rate. This scenario would allow access to dollars earned from exports, but would not allow for the dollarization of pesos generated locally.

In this simulation, net debt would be reduced by a total of 15%, due to the greater effect of the devaluation on peso-denominated debt than the dollarization of Arcor's cash in local currency. Similarly, due to the percentage of debt in pesos, annual interest would be reduced by 15%.

The stress would be strongly reflected in EBITDA, which in 2022 only represented 19% of operations in foreign markets. The devaluation in USD of the portion of EBITDA generated in the local market would lead it to a total of USD 243 million, 40% less than the value calculated in the base scenario.

Taking these new flows and stocks at the blue-chip swap rate, the Net Debt/EBITDA ratio would worsen to 2.0 times, while interest coverage would decrease

to values of 1.5 times. Due to the significant participation of the firm's local businesses, in this extreme situation the ratios would worsen. In any case, this scenario maintains ceteris paribus the high costs in dollars due to high Argentine inflation and the progress of Arcor's commercial developments abroad.

Arcor (mill. of dollars)	2022	2022* BCS	Var (%)
Total debt	704	596	-15%
Cash and equivalents	128	108	-15%
Net debt	576	488	-15%
EBITDA (LTM)	407	243	-40%
Net debt/EBITDA	1.4	2.0	0.6
Interest Expense (LTM)	187	157	-16%
EBITDA/Interest	2.2	1.5	-0.6

Source: Sekoia Research based on Arcor presentations.

Arcor 2023 Corporate Bond



Arcor 2027 Corporate Bond





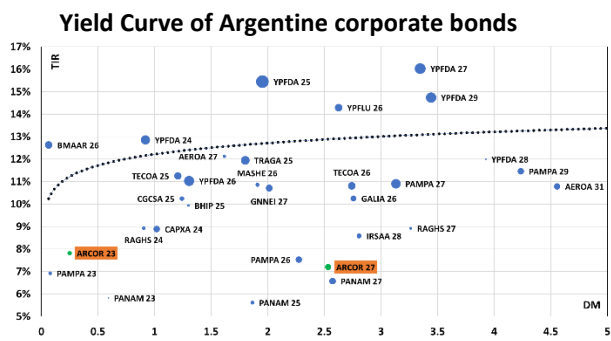
Source: Bloomberg.

The 2023 NY Law bond trades at 99.5% clean. It must pay 103% in June, so it practically operates without default risk. Looking at its performance, the Arcor bond has demonstrated strength at all times, recovering from difficult international and local contexts.

On the other hand, the new 2027 NY Law bond trades at 103%, providing a yield to maturity of 7.2%. By paying partial amortizations, its modified duration is shortened to 2.5 years. The bond is very accessible to retail investors since it can be traded with a minimum of 1 piece.

Perspectives

Arcor positions itself as one of the highest-quality issuers in the Argentine corporate curve of foreign legislation.



Source: Sekoia Research based on Bloomberg.

After the exchange, the 2027 bond began trading at the end of 2022 and the beginning of 2023 with very low-risk spreads, despite the context of rising interest rates by the Fed, strong labor market, and persistent inflation in the American economy.

The recent drop in prices following the notable deterioration of Argentine macroeconomic conditions has begun to provide more attractive entry prices for investors. The Arcor 2027 bond is recommended for those seeking quality and prioritizing cash flows and coupon payments over the probable volatility that these types of assets may experience in a challenging short-term context.

Regarding the company, it is noteworthy how Arcor, despite being a company with consolidated businesses, continues to expand by seeking to enter foreign markets both in sales and production. Access to new markets gives the company greater capacity to generate foreign currency free from local regulation to meet its commitments. In this sense, it will be interesting to monitor Arcor's progress in the African market.

As the only issuer representing the consumer staples industry, Arcor is an excellent option to diversify Argentine corporate fixed-income portfolios, which are generally very linked to the energy industry. Below 103%, our fixed-income funds have returned to taking exposure to the 2027 bond. We like the credit; it does not provide too much yield, but it does provide a lot of peace of mind despite the uncertainty that plagues Argentina.

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