INITIATION

Thriving under abnormal conditions

Grupo Nutresa (BVC: NUTRESA) is a leading economic conglomerate in the food processing industry with a strong brand portfolio and reported revenues at the end of 2020 of COP 11.1 tn (fourth quarter forecast). Operationally, Grupo Nutresa is made up of the cold cuts business, cookies, chocolates, Tresmontes Lucchetti -TMLUC-, Coffee, Retail Food, Ice Cream and Pasta. In Colombia, the commercial activity is supported by Comercial Nutresa and by the cold cuts business segment as well as alternative sales channels such as Noventa (Catalogue sales and vending machines) and La Recetta. The company also has its own exclusive distribution companies abroad to support its international operation. **We Initiate coverage with an Overweight recommendation at COP 29,219 12-month price target**, this represents a premium of 31.3% with respect to previous close price.

› CATALYSTS & ABNORMAL CONDITIONS (PAGE 5)

Our investment thesis is supported on the company's´ resilience under the current economic crisis, Nutresa´s well known M&A expansion plan, the company's strong top line growth potential and the return to profitability on almost every category the company operates at.

We see multiple value generating catalysts, i.) greater exposure to strong demand markets ii.) diversified and strong brand product portfolio (leading market share in Colombia, Central America and Chile) ii.) well-organized and efficient distribution channel enhanced through economies of scale and iv) relative low leverage and strong cash position gives ample space for potential inorganic growth in valued added-segments.

› SEGMENTS (PAGE 17)

The company has proven to be resilient to the current economic crisis. This is because 87% of sales come from basic food products, and this in turn, corresponds to 85% of Nutresa's cash flow generation. Nevertheless, challenges will continue on its discretional food segments (ice cream and the retail food business line).

› VALUATION (PAGE 41)

We used the discounted cash flow methodology to value Nutresa´s food business and market values for its investment portfolio.

Please review the Analyst Certification and other important warnings found on the last page of this report.

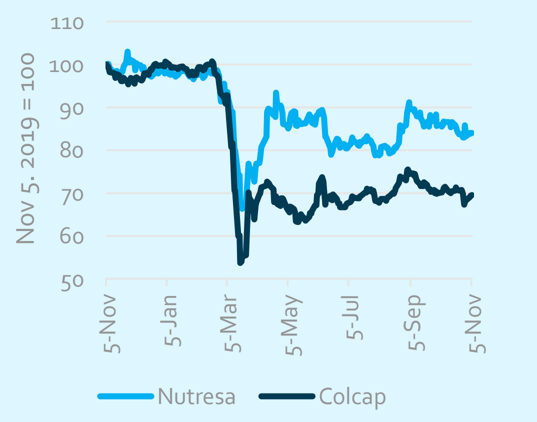
Grupo Nutresa

PT: 29,219 COP

TICKER	RECOMMENDATION
Nutresa	OVERWEIGHT
SECTOR	**INDUSTRY**
Consumer	Food Processing

Previous Close (COP)	22,250
Discount / Premium	31.3%
52 wk High (COP)	26,400
52 wk Low (COP)	16,800
12-month return	-11.57%
YTD return	-12.14%
Market Capitalization (COP tn)	10.2
Float %	45.6%

STOCK PRICE



Source: Capital IQ.

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Income Statement (COP MM)

	2018	2019	2020E	2021E	2022E	2023E
Revenue	9,016,067	9,958,851	11,091,639	12,012,938	13,055,592	13,913,508
Var. (%)	3.7%	10.5%	11.4%	8.3%	8.7%	6.6%
Gross Profit	4,205,481	4,560,849	4,654,676	5,100,056	5,697,950	6,223,904
Var. (%)	5.3%	8.5%	2.1%	9.6%	11.7%	9.2%
EBIT	959,621	1,178,116	1,210,482	1,469,546	1,581,861	1,309,791
Var. (%)	13.0%	22.8%	2.7%	21.4%	7.6%	(17.2%)
Fin. Expenses	(247,304)	(302,303)	(267,202)	(254,004)	(275,914)	(253,655)
EBT	704,216	735,114	979,313	1,027,094	1,266,541	1,403,491
Var. (%)	34.6%	4.4%	33.2%	4.9%	23.3%	10.8%
Taxes	(189,324)	(205,221)	(285,661)	(293,312)	(353,941)	(392,212)
%	26.9%	27.9%	29.2%	28.6%	27.9%	27.9%
Net Income	505,308	506,388	693,652	733,782	912,600	1,011,278
Var. (%)	20.3%	0.2%	37.0%	5.8%	24.4%	10.8%
EBITDA	1,125,769	1,353,098	1,459,013	1,516,651	1,801,255	1,930,292
Var. (%)	8.0%	20.2%	7.8%	4.0%	18.8%	7.2%
EBITDA Margin	12.5%	13.6%	13.2%	12.6%	13.8%	13.9%

Source: Nutresa and Corficolombiana.

Balance Sheet (COP MM)

	2019	2020E	2021E	2022E	2023E
Cash and Cash Equivalents	497,947	571,489	639,382	695,080	763,075
Total Current Assets	3,262,962	3,671,202	3,956,540	4,236,648	4,481,439
Net, PP&E	3,400,057	3,469,206	3,542,131	3,622,388	3,712,971
Total Non-Current Assets	11,503,727	11,600,319	11,680,605	11,768,715	11,866,403
Total Assets	15,645,241	16,150,073	16,515,697	16,883,915	17,226,393
Total Current Liabilities	2,347,837	3,119,851	3,660,804	4,118,649	3,934,806
Total Non- Current Liabilities	4,612,540	3,998,531	3,456,313	2,910,385	2,931,067
Total Liabilities	6,960,377	7,118,382	7,117,116	7,029,034	6,865,873
Total Equity	8,684,864	9,031,690	9,398,581	9,854,881	10,360,520

Source: Nutresa and Corficolombiana.

Financial Indicators

	2018	2019	2020E	2021E	2022E	2023E
ROE	6.1%	5.8%	7.7%	7.8%	9.3%	9.8%
ROA	3.7%	3.2%	4.3%	4.4%	5.4%	5.9%
Net Debt / EBITDA	2.5x	2.4x	2.2x	2.0x	1.8x	1.5x
Debt to Equity	33%	37%	35%	32%	33%	29%

Source: Nutresa and Corficolombiana.

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Grupo Nutresa: Thriving under abnormal conditions

The unparalleled economic shock related to the COVID-19 Pandemic, explains a great deal of this year's corporate performance around the world. The effect of the shock was felt directly on the companies' revenues, varying in magnitude (and direction), depending on the business category. After the initial shock, a partial correction took place, followed by a persisting effect that is being determined by the role each company has been able to play under the current "New Normal" period, which will continue as long as a cure or vaccine for COVID-19 is not found (see our equity report "Drawing the line on COVID-19 and Oil - Complete report").

As might be expected, even after a cure is found, several drawbacks (or advantages) can persist for some time, or even become permanent. These circumstances were considered for the enterprise valuation of Nutresa, whose earnings performance improved materially during 1H20. In any case, the year before the pandemic begun, Nutresa had improved its performance considerably, with respect to the previous years that were evaluated.

Given that as a processed food holding company, Nutresa's diversified portfolio of products include specialized and relatively expensive foods, the performance of these during the COVID-19 pandemic, was differentiated depending on the product line and/or constituent company, including what is expected from consumer staples as well as consumer discretionary products' performance under deteriorating economic conditions. The overall effect of these benefits and shortcomings was positive, and Nutresa is one of the few Colombian companies that has managed to benefit from the pandemic during 2020.

During the current year, Nutresa's sales volume show a shift towards cheaper and more cost effective foods, resigning those more elaborate and expensive, consequence of the deteriorating economic conditions around the world, especially around Latinamerica, where most of Nutresa´s revenue come from. **During the following years, the sales volume of the company should reflect the economic recovery of the region, with disposable income levels below those right before the pandemic. In this sense, although the company can (should) continue developing specialized foods (nutritious, low in sugar, etc.) and franchises, the bulk of revenues should come from the brands that are doing well today.**

Our valuation is supported in the scenario just described, which implies that the unfulfilled Latin-American growth promise (years of higher growth and development compared with that of nations with developed economies), will remain unfulfilled during the following years. However, this implies we expect solid results for Nutresa during the next years, companied by the ability to benefit from changing consumer patterns and conditions, derived from a better macroeconomic situation as well. If for some reason growth opportunities arise on more consumer discretionary – like products, the current portfolio of companies, products, and brands, will enable Nutresa to grow there as well. The same goes for inorganic growth; today's economic conditions call for a conservative management mode, but if opportunities arise, Nutresa can raise to the occasion as well.

We are happy to say that postponing the publication of our initiation report during the pandemic, made us change the focus of the analysis from questioning whether the company was an overachiever or an underperformer under gauges different from those used on the MEGAs (Spanish initials for Long Term Tangible and Audacious Goal), to the fact that its portfolio has thrived under stressful economic conditions, and we expect this to remain being the case during the following years. We initiate our coverage of Nutresa with a target price (12 months forward) of 29,219 per share (15.6% ytd, 31.3% valuation from today's price).

Grupo Nutresa

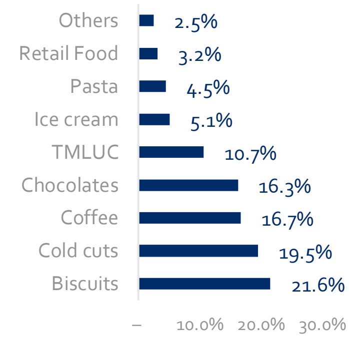
Company Description

Grupo Nutresa (BVC: NUTRESA) is a leading economic conglomerate in the food processing industry with a strong brand portfolio and reported revenues at the end of 2020 of COP 11.1 tn (fourth quarter forecast) The group has its origins at the beginning of the 20th century, during the period of the country's industrial development and the expansion of the most emblematic companies in Colombia. The company was born under the name of Compañía Nacional de Chocolates Cruz Roja in 1920 as an initiative of native entrepreneurs and was established in the city of Medellín.

The company enjoys a limited commodity price volatility given its diversified product portfolio (no commodity represents more than 13% of Nutresa´s total input costs) that includes cold cuts, biscuits, chocolates, coffee, retail food, ice cream, and pasta, among others. In addition to its product diversification strategy and strong market position, Grupo Nutresa has business operations in more than 9 countries with around 46 production plants leaving the company less exposed against country specific risk. Its brands and food products can be found in 75 different countries on the five continents.

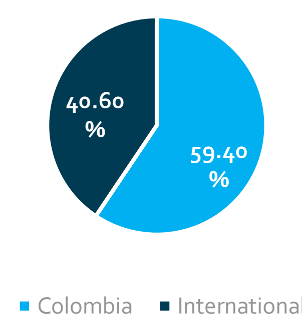
By the third quarter of 2020, 59.4% of total consolidated sales came from its operations in Colombia, followed by United States (12.3%), Central America (10.2%), Chile (7.5%), Mexico (2.8%) and others (7.8%). Following the recent acquisition of Cameron´s Coffee, United States sales share has grown one hundred basis points, a position previously held by Central America. This achievement is the result of outstanding sales volume growth along with the depreciation of the peso against the dollar.

Graph 1: Percentage of EBITDA by business



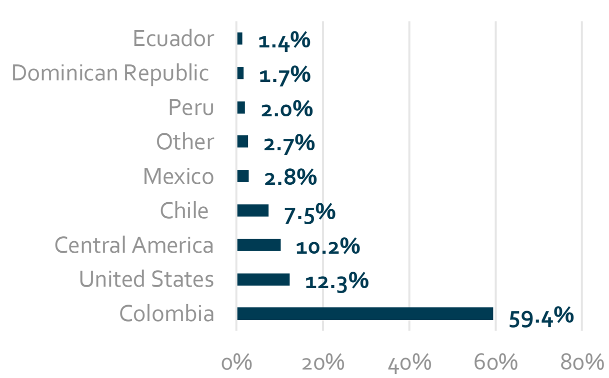
Source: Nutresa.

Graph 2: Sales by region



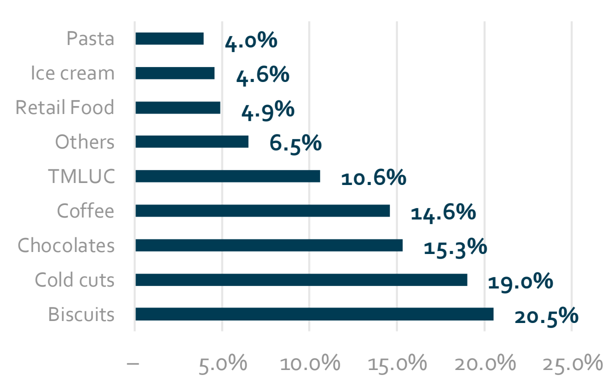
Source: Nutresa.

Graph 3: Percentage of sales by region



Source: Nutresa.

Graph 4: Percentage of sales by business



Source: Nutresa.

Table 1. Nutresa - Corporate History

1920	Foundation of Compañía Nacional de Chocolates Cruz Roja
1933	Acquisition of Galletas Noel. Creation of the Sello Rojo and Colcafe brands
1958	Creation of the Colcafe brand
1960	Merger of Nacional de Chocolates, Chocolate Sansón, Chocolate Chaves, Santa Fe and Tequendama. Acquisition of the Cold Cuts business
1968	Acquisition of Café La Bastilla
1970	Acquisition of Frigorifico Continental and Frigorifico Suizo
1978	Sell / Strategic Partnership "GEA"
1980	Acquisition of Molino Santa Marta S.A. Foundation of Tecniagro S.A.
1993	Foundation of Dulces de Colombia S.A.
1995	Foundation of Cordialsa Venezuela , Corporación distribuidora and Proveg Ltda.
1996	International Acquisition of Industrias Alimenticias Hermo de Venezuela
1997	Acquisition of Productos Alimenticios Doria
1999	Sell of 30% of Galletas Noel
2000	Foundation of Noventa
2002	Acquisition f Rica Rondo Industria Nacional de Alimentos and Foundation of Cordialsa Mexico
2004	Acquisition of Chocolates de Nestle Costa Rica and a Biscuit production plant
2005	Acquisition of the remaining 30% of Galletas Noel, Pastas Comarrico and Setas Coolombianas. Merger with InverAlimenticias S.A.
2006	Acquisition of Meals, Galletas de Pozuelo in Costa Rica and Blue Ribbon in Panama
2007	Acquisition of Mil Delicias and Good Foods in Peru. Merger with Pozuelo in Nicaragua and Panama.
2008	Acquisition of Emesto Berard S.A. in Panama. Joint Venture with Alpina on the Foundation of La Recetta
2009	Acquisition of Nutresa Mexico
2010	Acquisition of Industrias Aliadas and Fehr Holdings in United States.
2011	Acquisition of Helados Bon in the Dominican Republic
2012	Acquisition of American Franchising Corp.
2013	Acquisition of Tresmontes Lucchetti S.A.
2014	Acquisition of Aldage
2019	Acquisition of Atlantic Food Service SAS and Cameron´s Coffee

Source: Grupo Nutresa.

Industry Analysis

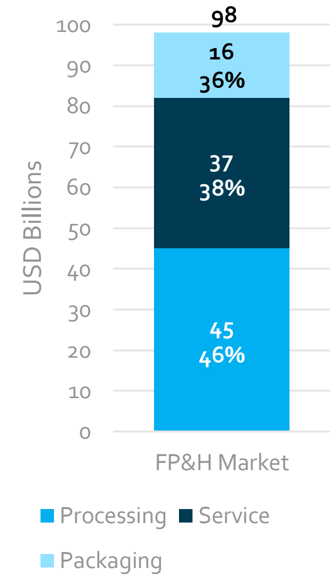
Food Processing Industry

In the food processing industry, companies generate revenue by transforming raw materials into ready-to-sell goods. These products supply the demand of different types of customers such as supermarkets, hypermarkets, local wineries, restaurants, among others. Considering that the industry´s main inputs are raw materials (milk, soy, corn, meat, etc.), margins vary widely because of the volatility in the commodities market.

The industry is not considered cyclical, therefore when compared to other industries, corporate earnings are less affected due to changes in the economic cycle. Nevertheless, food processing companies specially those on emerging markets, can be impacted by the adverse effects of exchange rates.

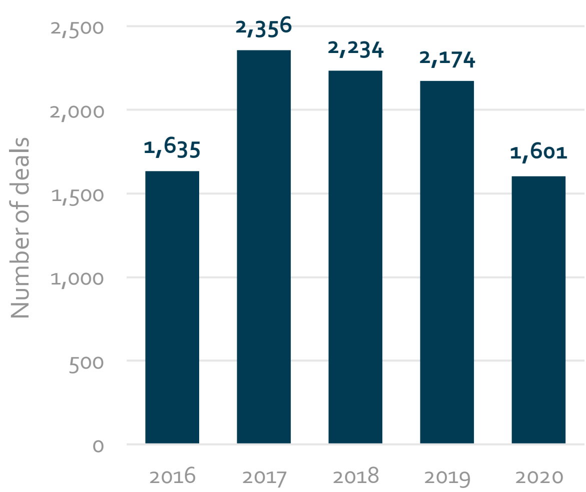
The expansion of companies in new geographies through mergers (graph 6 and 7) or in some cases hostile takeovers and the entry of new competitors have fueled a highly competitive market. **As a result, greater capital returns and value creation are found primarily on businesses with greater global presence and extensive business experience, who after all can benefit from economies of scale**. As a matter of fact, in the food processing segment on a global scale, 20% of total market concentration is clustered around in only 10 companies[1], who benefit from a USD 45 billion industry (graph 5).

Graph 5: FP&H Market



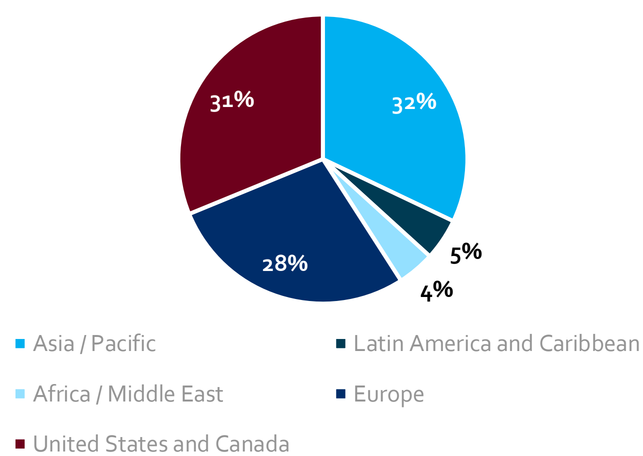
Source: McKinsey & Company. 2016 Figures

Graph 6: M&A Transactions in the Food packaging Industry



Source: Capital IQ.

Graph 7: Number of Transactions by region



Source: Capital IQ.

[1] "*Food Processing & Handling Ripe for disruption?*". March 2018. Mckinsey & Company.

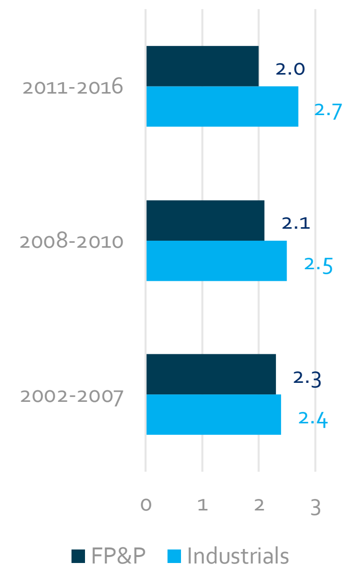
Performance and Growth Prospects

Growth prospects in the industry are positive as demographic change and population growth is expected to accelerate in the next years driving higher demand specially in emerging markets. On the other hand, according to an industry report by Mckinsey & Company, the rise in the quality of life and urbanization is increasingly leading to a greater demand for more specialized products.

Bearing this in mind, companies in the industry must shift their resources and efforts on supplying the demand for healthier food products and understand new raising consumer preferences. In order to generate top line growth on a USD 98 bn industry, companies must differentiate themselves by **focusing on innovation and changing appetite of food formats**. On the cost side, revenue growth can easily be dilutive to margins if automation and innovation are not considered in the near future as a long-term strategy. Hence the necessity to improve operational efficiency as a mean of lowering marginal product costs while boosting quality and minimizing production and delivering times.

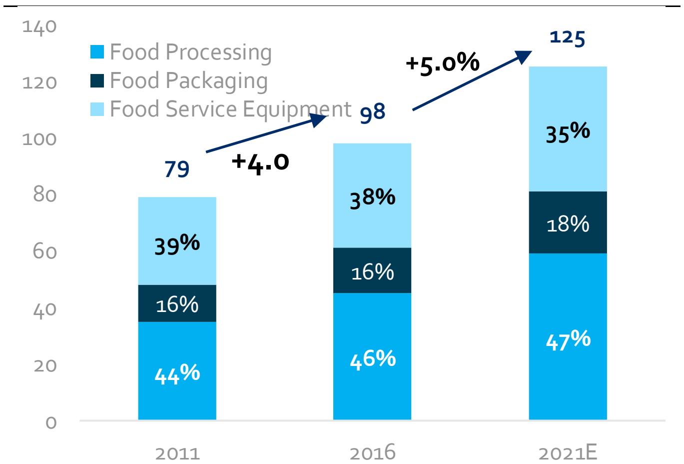
Overall, we believe that sustainability and profitability of companies in this industry for the years ahead are founded on three key factors: **i) understanding consumer preferences; ii) optimization of resources and iii) investment in automatization and innovation.** Strategies should focus on improving operational processes and designs, the use of derivative products, innovations in the supply and logistics chain, and constantly addressing consumers evolving needs and preferences. Food Processing stocks have, on average, delivered high single-digit annual total returns (share-price appreciation and dividends), with much less volatility than the broader market indexes.

Graph 8: Revenue / Average Invested Capital



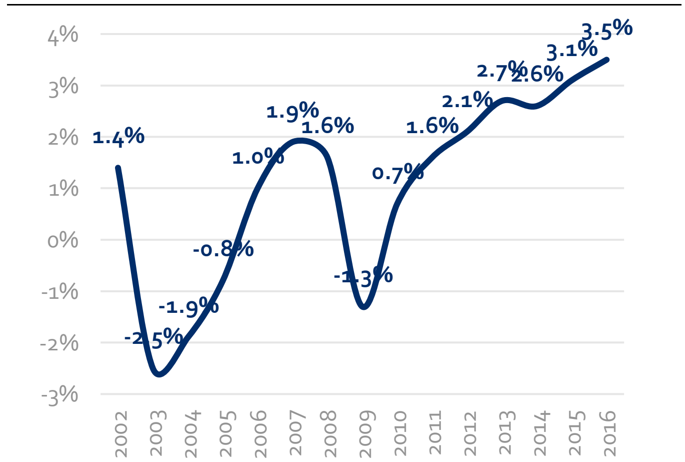
Source: McKinsey & Company. 2016 Figures

Graph 9: FP&H Industry growth



Source: Freedonia, BCC, Azoth.

Graph 10: Economic Profit / revenue for FP&H companies



Source: Mckinsey & Company.

Understanding Consumer Preferences:

Consumer preferences are constantly evolving, people today do not purchase the same products they used to a decade ago, and in the same way, they probably will have a different consumption pattern in the future. We consider that anticipating consumer preferences and needs is key in a fast-evolving industry.

As mentioned before, people are opting to purchase healthier food products as opposed to a decade ago. In fact, a certain specialized consumer base would rather buy a bottle of flavored water today than soda, and on top of that, they are willing to pay more for these products than they did 5 or even 10 years ago.

Therefore, if companies in the industry are expecting to achieve greater capital returns or even continue to be competitive, they must shift their efforts and resources on supplying healthier food products that best meet the needs of customers. The development of organic, hydroponic products or simply the reduction on the use of additives and chemicals are examples of actions that participants can choose to implement to start gaining a competitive advantage in the industry.

On the other hand, a very important factor is the acceleration of digital transformation and the development of e-commerce as a means of improving customer experience. Products and services by themselves are no longer competitive differentiators for businesses. In the entire food industry (wholesale, retail, and food processors) online sales are part of the main catalyst for growth, therefore, it is essential to build an omnichannel digital platform to continue winning and / or even maintaining market share in the industry.

Optimization of resources and investment on innovation and automation

The use of digital platforms for businesses that distribute, process, and package food and beverage products constitute an essential element to predict and understand consumer habits through recently developed technologies such as Internet of Things (IoT) and artificial intelligence. According to Report Linker, such technologies could grow market revenue at a compound annual growth rate of 9.5% in the next five years.

Increasing competition and smaller margins have risen the need to address operational challenges and cost pressures that companies face in the industry. Now more than ever, the market is demanding technology that improves operational efficiency, reduces delivering times and enhances the end-product while maintaining, or even reducing costs. Bearing this in mind, companies must increase capital expenditure on research & development, automation, and energy efficiency initiatives. Technological innovation allows competitors to generate economies of scale through increased productivity without compromising product quality. We believe that current innovation in the industry must be focused mainly on improvements in the logistics supply chain, among others.

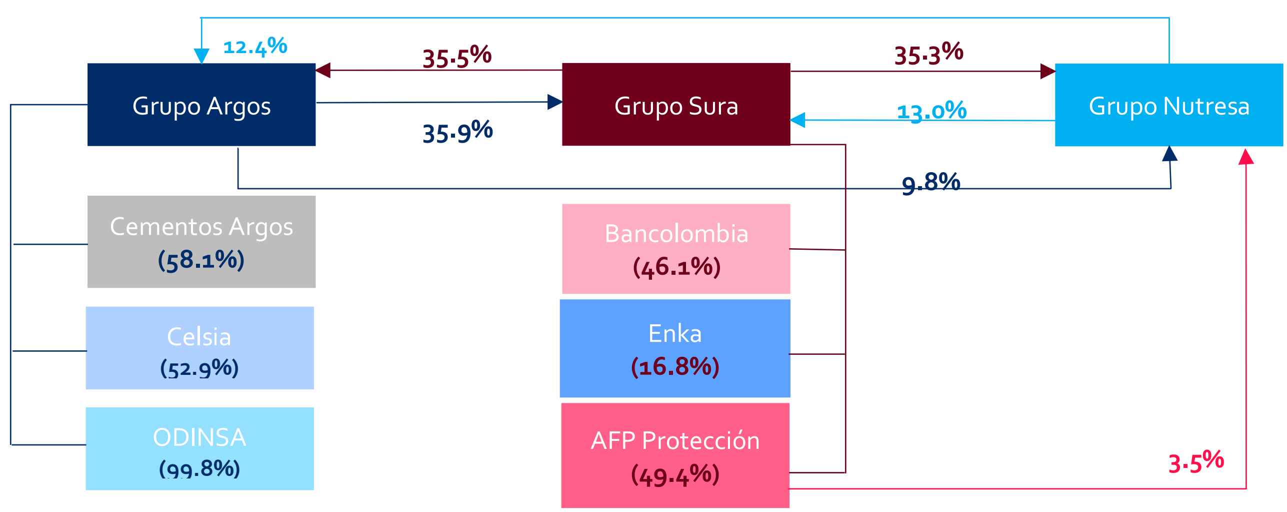
Descriptive Analysis

Corporate Structure

After a business environment of hostile takeovers by foreign multinationals in Latinamerica, the "Movement in Defense of the Public Limited Company and the Industrial Heritage of Antioquia" emerged (Sindicato Antioqueño). Companies in Antioquia formed a joint corporate structure by buying equity shares between them. Compañia Nacional de Chocolates, now Nutresa, participated in this movement in 1978 along with Grupo Argos and Suramericana.

In this sense, Grupo Nutresa along with Grupo Argos and Grupo Sura form the basis of a complex cross-shareholder corporate structure (Grupo Empresarial Antioqueño). Both Grupo Sura and Grupo Argos are Nutresa´s current controlling shareholders with a 35.3% and 9.8% stake, respectively. On the other hand, Nutresa holds 13.0% and 12.4% stake in Grupo Sura and Grupo Argos within its investment portfolio (Graph 11).

Graph 11: GEA – Corporate Structure



Source. Superintendencia financiera.

After the internationalization process of the Antioquia business group in the 90s, together with Nutresa's corporate strategy of geographic and product diversification, the group achieved a product portfolio that ranges from Ice creams to frozen meat products. Operationally, Grupo Nutresa is made up of the cold cuts business, cookies, chocolates, Tresmontes Lucchetti -TMLUC-, cafes, consumer food, ice cream and- pasta. In Colombia, the commercial activity is supported by Comercial Nutresa and by the cold cuts business as well as alternative sales channels such as Noventa (Catalogue sales and vending machines) and La Recetta. Nutresa has its own exclusive distribution companies abroad to support its international operation as well.

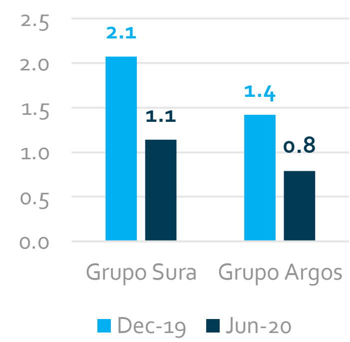
Investment Portfolio

Given that Nutresa has a significant amount of influence but no control over these businesses (less than 50 % ownership), Nutresa uses the Equity Method accounting approach to disclose its investments in Grupo Sura and Argos. The assets under this approach are recorded at fair value and any profit or loss on fair value measurement flows directly into retained earnings through other comprehensive income (OCI).

Considering that the local equity market, and the global market overall, experienced a steep decline between February and March in 2020 , mainly due to COVID – 19 and the Oil price crash, Grupo Argos and Sura´s stock price declined 30.8% and 41.1% respectively between December of 2019 and March of 2020 (graph 13). The drop in market value of these assets translated into a COP 1.3 trillion loss due to fair value measurement registered in OCI (impacting Nutresa´s balance sheet) in the first quarter of 2020 and COP 0.3 trillion in the second quarter (graph 12). Now, the rebound experienced by the global equity markets since mid-March, was insufficient and limited in Colombia. Bearing this in mind, Nutresa´s investment portfolio value is far from reaching its pre-covid level, significantly impacting company valuation.

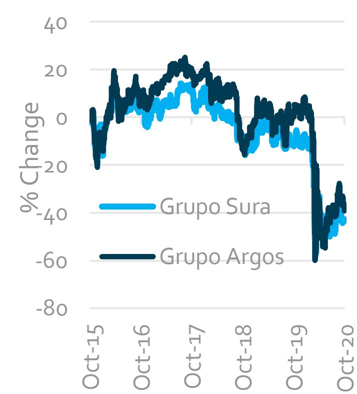
Despite that, Nutresa has been receiving steady and regular dividend payments from these investments, Grupo Sura´s current dividend yield (2.8%) is well below its regional peer's average (5.1%). On the other hand, Grupo Argos dividend yield of 3.5% outperforms its peer´s average (2.6%).

Graph 12: Market Value Portfolio (COP Trillions)



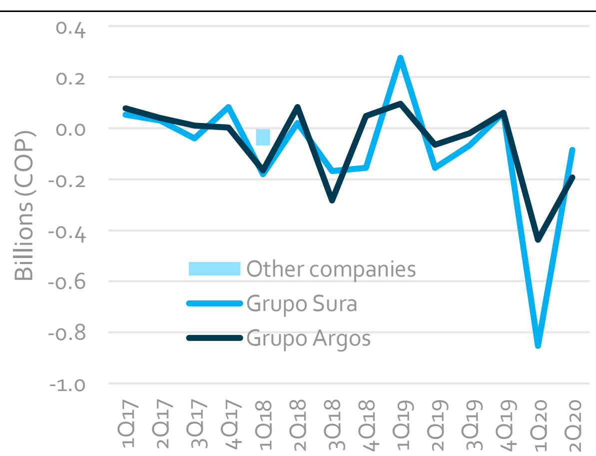
Source: Grupo Nutresa.

Graph 13: Stock price



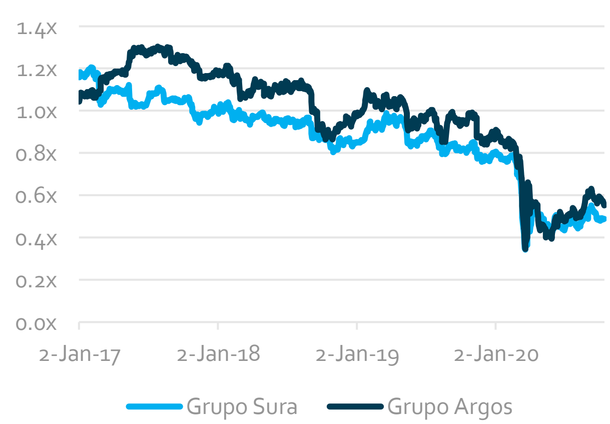
Source: Capital IQ.

Graph 14: Profit on fair value measurment



Source: Grupo Nutresa.

Graph 15: Market Cap/Total Revenues



Source: Capital IQ.

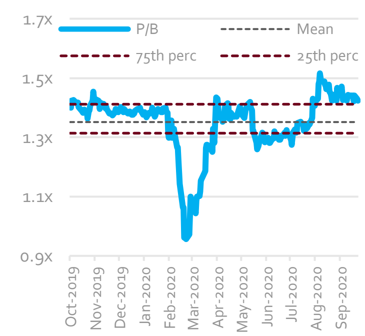
On a longer term, we believe Nutresa will keep holding investments in both companies with no major changes, and dividend yield as well as current dividend payout ratio should provide some support, especially in Grupo Argos. But while prices may seem depressed at the moment impacting company valuation, current trading multiples, particularly price-to-book ratio, suggest longer- term rebound in prices to at least pre-covid levels, reversing previous losses in Nutresa´s financial statements.

Historical Trading Performance

Nutresa is traiding at a trailing price-to-earnings (P/E) of 18.4x as of this writing (graph 17). This seems cheap when compared to its five-year average of 24.9x and its regional peer's mean multiple (20.4x). On the other hand, although Nutresa's current Price to book value (1.4x) is not below one (graph 16), it is well below its historically trading P/B multiple and its peer´s mean LTM multiple (2.2x). Notably, the market seems to be discounting Nutresa´s stock price when performing a relative valuation, but overall, the Colombian market has been trading at a discount, even before the major sell off in mid-March.

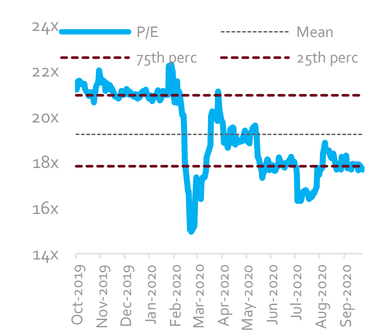
Nutresa's share price hit a minimum of COP 17,000 in March. This price was last seen in 2015 when the company reported revenues of COP 7.9 Trillion compared to the sales reported in 2019 of COP 9.6 Trillion. If a shareholder invested five years ago in Nutresa at an entry price of COP 21,440 (price level seen in October of 2015), the investor would have realized, after accounting for dividends, a nominal five year holding period return of 14.8%, or a weak 2.8% compounded annual nominal return (negative real return when factoring inflation). Any entry price above COP 24,617 would have yieldd a negative nominal return over this fiver year investment period. ***To date, Nutresa has performed better than most companies listed on the Colombian Stock Exchange in part due to the positive market sentiment toward consumer staple companies during the COVID-19 crisis.***

Graph 16: Price-to-Book



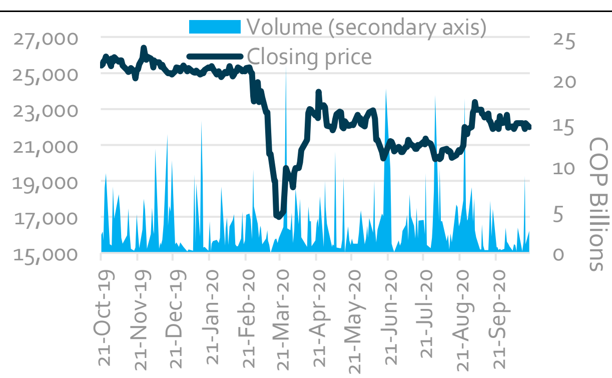
Source: Capital IQ.

Graph 17: Price-to-Earnings



Source: Capital IQ.

Graph 18: Trading performance



Source: Bolsa de Valores de Colombia.

Table 2: Prices and Volume (COP)

	Spot	Average	Average Volume (MM)
Las 10 Days	22,000	22,075	1,825
Last 30 Days	22,960	22,302	1,640
Last 60 Days	21,020	21,712	3,227
Last 120 Days	22,800	21,767	3,332
LTM	25,600	22,901	3,292
LTM High	26,400		
LTM low	17,000		

Source: Bolsa de Valores de Colombia.

Shareholders

Currently, Nutresa's free float percentage of total shares outstanding is 45.6%, 54.4% of outstanding shares are currently held manly by strategic corporate investors with Grupo Argos and Grupo Sura accumulating 82.7% of the bulk of non-free float shares. The participation of foreign investors increasing; expanding almost 4.0 percentage points (p.p.) since 2012 (graph 19). The top holders after Sura and Argos, are the pension fund Porvenir and institutional investor Blackrock with a 6.48% and 3.73% stake, respectively (graph 18).

We don´t have any reason to expect major changes on Grupo Sura and Argo's stake in Nutresa. In fact, their participation has remained almost unchanged over the years (graph 19). On the other hand, Nutresa's board of directors approval to undergo a stock buyback program for a maximum of COP 300 billion in the next three years could barely affect the free float of shares, and hence the liquidity of stock given the relative small size of the program. Under the current price level, and assuming the program is executed 100%, the free float of shares would decrease to 42.8%.

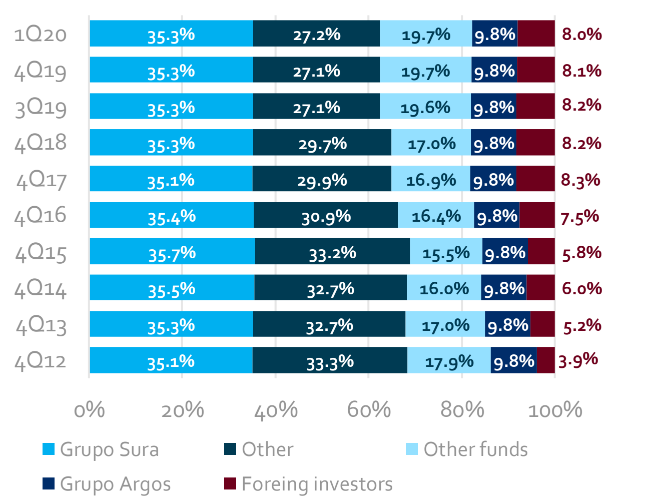
Lastly, amid at a world with excessive liquidity, in conjunction with an environment of rates globally , we expect a strong demand for emerging market assets as investors search for higher yield and are less risk-averse as the scenario of a possible vaccine before the end of the first half 2021 becomes more probable. Under this scenario we expect the stock to react positively to inflows of foreign investor´s funds into the country.

Table 3: Shareholders

Main Shareholders	Shares	%
Grupo Sura	161,014,311	35.0%
Grupo Argos	46,350,817	10.1%
Porvenir	29,830,733	6.5%
Fondo ISHARES Colcap	17,175,713	3.7%
Proteccion	16,182,342	3.5%
Microinversiones S.A.	10,871,984	2.4%
Colfondos	8,783,316	1.9%
Amalfi S.A.S.	5,813,935	1.3%
Libreville S.A.S.	5,514,904	1.2%
Skandia	4,587,435	1.0%

Source: Grupo Nutresa.

Graph 19: Prices / Volume (COP)



Source: Grupo Nutresa

Segments

The following table contains a summary of what has been the operational behavior of each of the nine categories that Nutresa currently operates. Performance is evidently heterogeneous not only at the product level but also at the country level. Macroeconomic fundamental variables such as exchange rates, interest rates, commodity price volatility, and even political stability in some of the countries, affect and define each of the categories trajectory and performance across the board.

Table 4: Segments - Performance

Category	% of sales (2019)	Revenue 5-year CAGR	EBITDA contribution	EBITDA 5-year CAGR	EBITDA margin (2019)	% of sales in Colombia (2019)	% of sales internationally (2019)
Biscuits	20.4%	10.2%	20.5%	10.3%	13.6%	48.3%	51.7%
Cold Cuts	19.2%	1.8%	17.6%	2.4%	12.4%	90.7%	9.3%
Chocolates	16.8%	9.4%	17.2%	14.1%	13.8%	60.3%	39.7%
Coffee	12.2%	9.4%	10.5%	-0.7%	11.7%	54.6%	45.4%
TMLUC	10.5%	7.1%	10.5%	11.5%	13.6%	0.0%	100.0%
Retail Food	8.2%	47.8%	13.7%	59.4%	22.6%	69.1%	30.9%
Ice Cream	4.8%	2.4%	5.0%	3.4%	14.2%	100.0%	0.0%
Others	4.6%	27.0%	1.7%	19.9%	5.1%	NA	NA
Pasta	3.4%	7.6%	3.2%	14.1%	12.6%	99.2%	0.8%
Total	100.0%	9.0%	100.0%	10.0%	13.5%	62.3%	37.7%

Source: Nutresa and Corficolombiana.

Overall, Nutresa performed exceptionally during 2019. Revenue growth was explained by the recovery of household consumption in Colombia, driving higher volume sales domestically along with the positive effect of COP/USD depreciation on international sales. Almost every segment exhibits a positive trend, expect Coffee. This line of business has been challenging due to higher commodity prices, yielding a negative EBITDA 5-year compound annual growth rate of 0.7%. In 2020, we are beginning to see a slight reconfiguration on Nutresa's food product portfolio weights, as some of the categories, especially the consumer staple ones, have showed accelerated top line growth rates, while the more discretionary food products, have lagged behind.

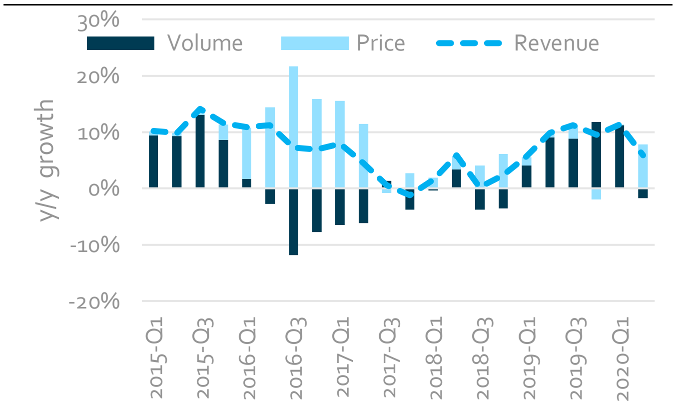
Following the company´s strategy to maintain an EBITDA margin on the of 12%-14% range, we believe Nutresa has been able to both generate revenue growth while seeing its EBITDA margin expand,again, with exception of the coffee category.

A more detailed analysis of each of the business segments is shown in the following pages, beginning with the most relevant categories to the least important in terms of contribution to revenue sales.

Biscuits

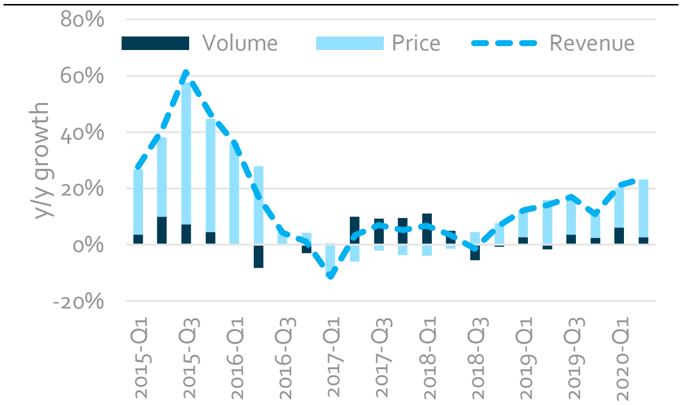
The biscuit category accounts for 16.9% of total domestic sales and 29.2% of volumes sales. In the international market, this division represents 27.4% of total revenues, with sales concentrated mostly in Central America and United States (24.4% and 19.6% respectively). This segment is the largest category for Nutresa both in terms of EBITDA generation (21.6%) and revenue sales (20.5%); and the division's most important brands domestically are Noel and Tosh with a 52.4% leading market share in Colombia. Yet, market share has shrunk 2.4 p.p. since 2016 mainly because of a pricing strategy and the entry of new participants. This category remains highly competitive, yet shows positive top line growth rates and healthy profitability with an EBITDA compound annual growth rate (5 years) of 10.4% (graph 23). EBITDA margin expanded 26.9 basis points to 13.6% in 2019, reflecting the positive execution of the company's strategy to find both the right mix of products and prices to turn the division profitable.

Graph 20: Biscuits – Colombia (COP)



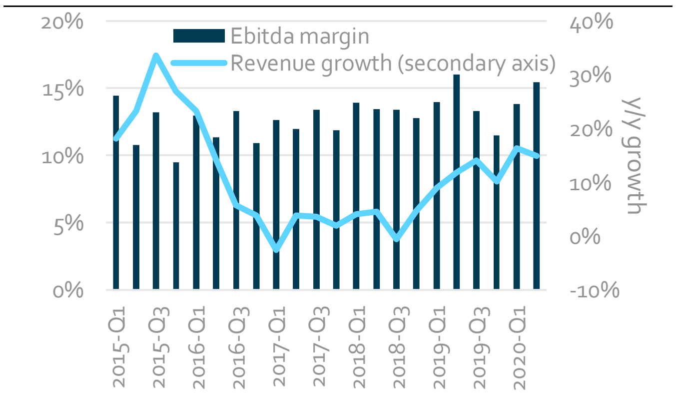
Source: Grupo Nutresa.

Graph 21: Biscuits – International market (COP)



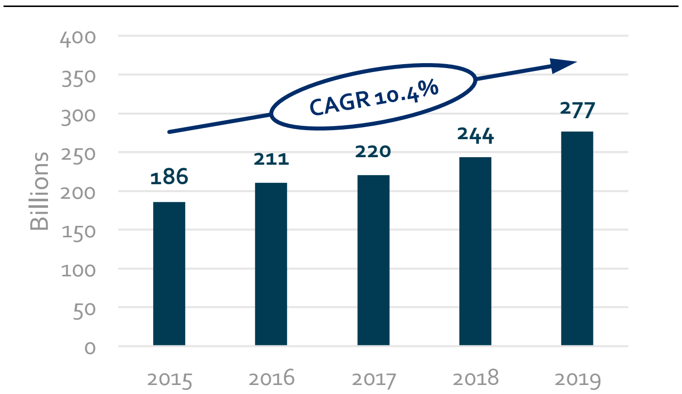
Source: Grupo Nutresa.

Graph 22: Biscuits operational performance



Source: Grupo Nutresa.

Graph 23: EBITDA (COP)



Source: Grupo Nutresa.

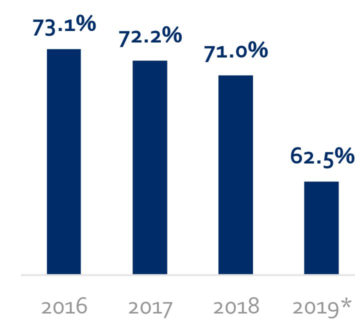
Cold Cuts

The cold cuts segment is the second most important category for Nutresa, representing about 30.2 % of total sales in Colombia and 19.0% at a consolidated level. It is important to note that this segment accounts for 4.8% of total international sales, while only 3.2% of total volume sales. The market share in Colombia of this division exhibits a downward trend (graph 24). From 2016 to 2019 market share has decreased by 10.6 p.p. (*2019 market share numbers are based on a new estimation model). Yet, Nutresa has managed to keep a strong leading position for this category in the domestic market (62.5% 2019) with top domestic brands Zenu, Pietran and Rica, allowing the company to employ price strategies in recent years.

In the domestic market, despite of a YoY contraction of 0.02% in 2018, biscuit´s sales increased by 0.8% mainly due to an increase in prices of the same magnitude (yet below inflation). However, in 2019 the outstanding performance of this category reflected a strong domestic consumer demand which led to a significant increase in YoY volume sales of 6.9%, which combined with an increase in prices of 2.1% resulted on a 9.2% YoY revenue growth.

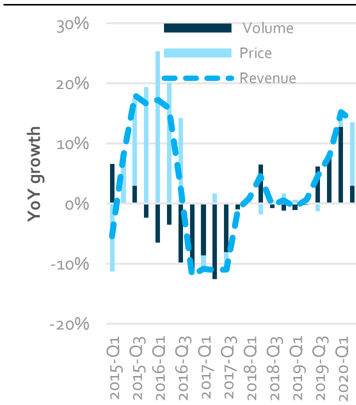
The contribution from the cold cuts category in the international market is not representative, where about 5.9% of total volume comes from this segment. In fact, its contribution has diminished over the years as volumes have decreased 46.5% since 2016, while sales in Colombian pesos have fallen 43.3%. In terms of profitability, the cold cut's EBITDA 5-year compound annual growth rate of 0.6% indicates a detriment of the category in the international market. Revenue growth, on the other hand, has stagnated over last five years, losing its number position to the Biscuit category (graph 27).

Graph 24: Cold Cuts – Market share in Colombia



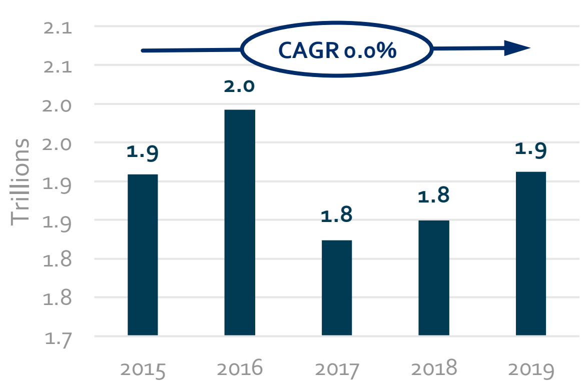
*Source: Nutresa. *New full market estimation model (Nielsen).*

Graph 25: Cold Cuts: Consolidated



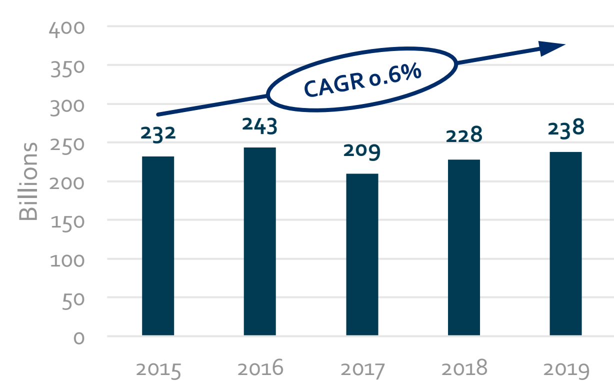
Source: Nutresa.

Graph 26: Biscuits – revenue (COP)



Source: Grupo Nutresa.

Graph 27: Biscuits - EBITDA (COP)



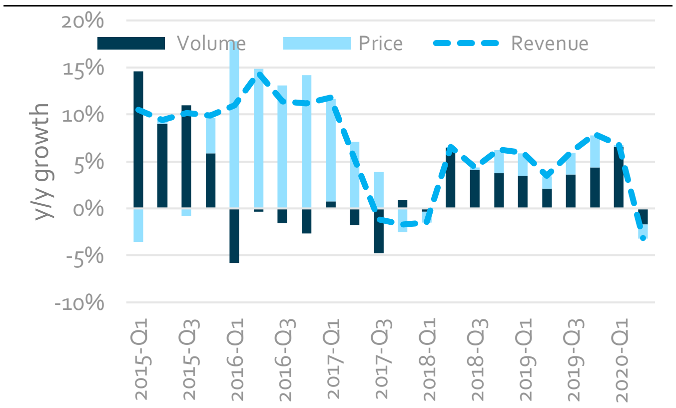
Source: Grupo Nutresa.

Chocolates

The chocolate business division is the third largest of Nutresa, accounting for 15.9% of total revenue domestically, and of similar proportion (15,3%) when observing the group's total consolidated sales. Colombia accounts for 60.3% of total revenue, the next largest countries in the category are Peru (11.6%), followed by Central America (9.1%) and Mexico (8.5%). The remaining 10.5% corresponds to United States, Ecuador, and other countries in the region.

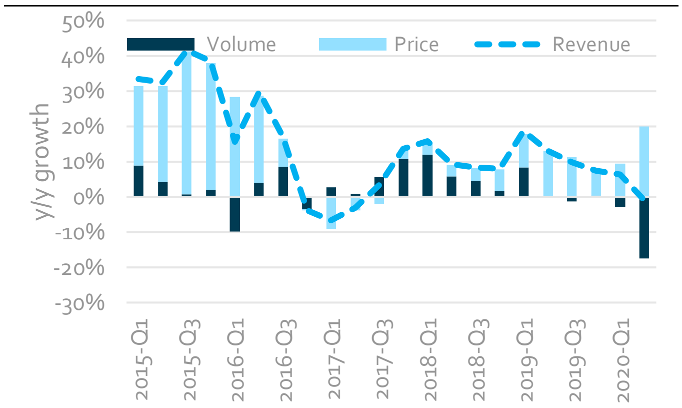
Nutresa has managed to retain customers by operating in the value-added segments which has resulted on positive dynamic growth rates and more market share. In fact, market share increased 6.2 p.p. when compared to 2016 and represents one of the highest among the different categories of the company (69.3%). Not surprisingly, this category displays some of the most dynamic growth rates both in terms of volume growth and profitability. The EBITDA margin (13.8%) is within the company's target range and grew 16.9% (CAGR) between 2015 and 2019, while revenue exhibited a 9.4 % CAGR during the same period.

Graph 28: Chocolates – Colombia (COP)



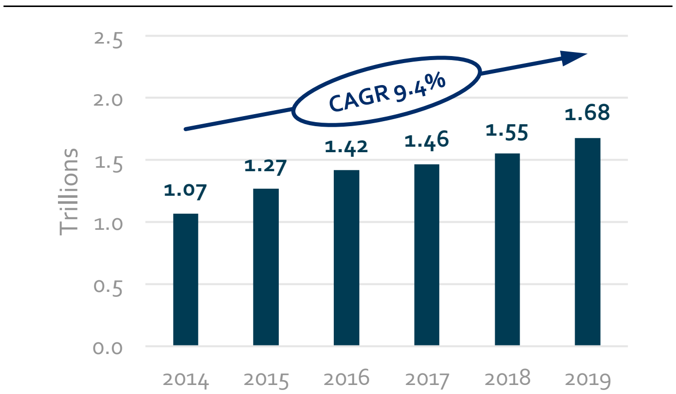
Source: Grupo Nutresa.

Graph 29: Biscuits – International market (COP)



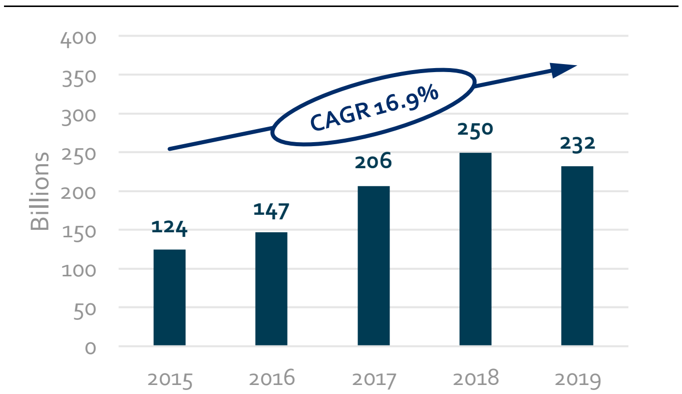
Source: Grupo Nutresa.

Graph 30: Chocolates – Revenue (COP)



Source: Grupo Nutresa.

Graph 31: Chocolates - EBITDA (COP)



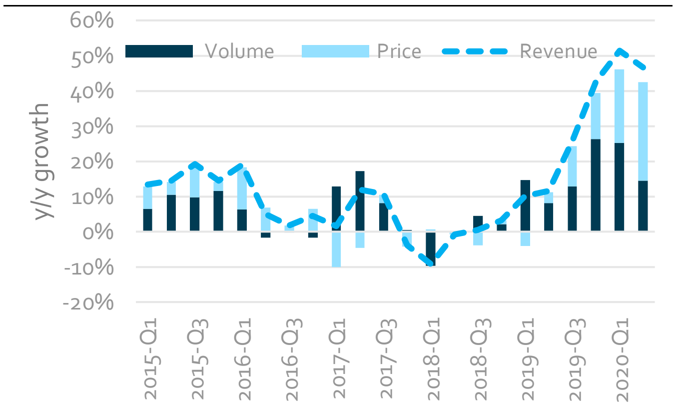
Source: Grupo Nutresa.

Coffee

The coffee business is a fast-evolving industry with ample opportunity for growth, especially internationally. While 54.6% of total coffee revenue comes from the domestic market, growth has been mainly driven by international sales where the company recently got a relative important position in the U.S. This division accounts for 16.7% of total consolidated EBITDA, with a market share in its ground coffee and soluble coffee segments of 49.1% and 39.9% respectively.

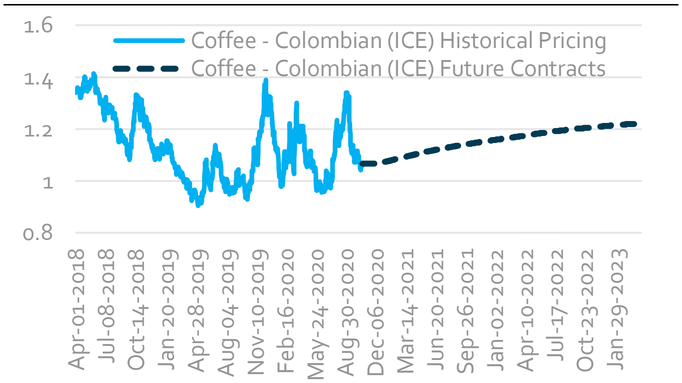
Despite holding a high market share in Colombia, we note a deterioration in recent years, which surprisingly has not had a negative effect on sales volumes. In terms of profitability, margins have been pressured due to higher coffee commodity prices, which have been partially offset by price increases (graph 32). With the most recent acquisition of Cameron's coffee, Nutresa is looking to strengthen its market position in the United States, adding up to USD 25.8 MM in sales in 2019, and develop the companies' go-to-market model in the U.S.

Graph 32: Coffee – consolidated (COP)



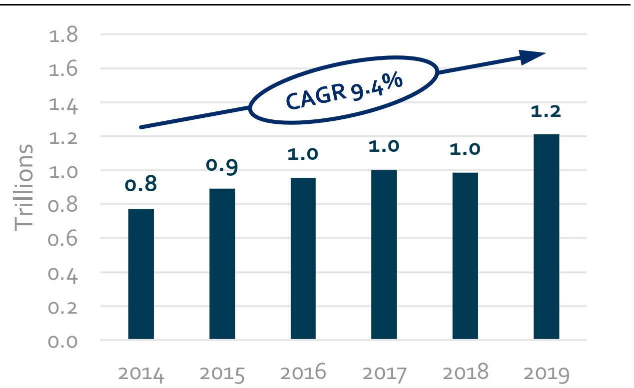
Source: Grupo Nutresa.

Graph 33: Coffee - Historical Pricing (USD)



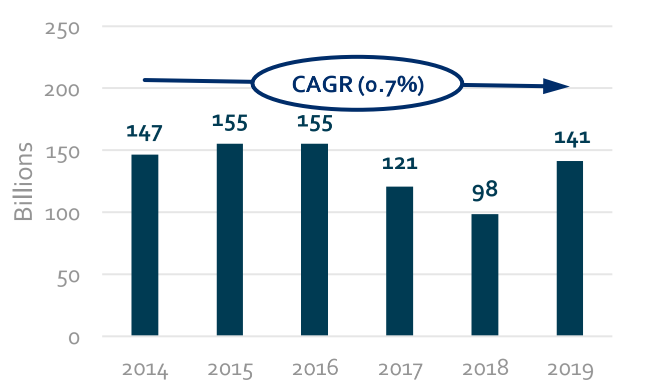
Source: Capital IQ.

Graph 34: Coffee – Revenue (COP)



Source: Grupo Nutresa.

Graph 35: Coffee - EBITDA (COP)



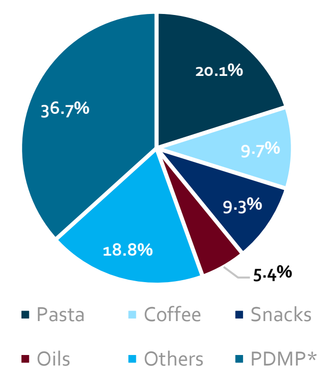
Source: Grupo Nutresa.

Tresmontes Lucchetti (TMLUC)

Tremontes Lucchetti generates approximately 71.8% of total sales in Chile, the next largest locations for this business line are Mexico (17.8%), Central America (4,2%), U.S. (2.8%) and others (3.4%). With the TMLUC division, Nutresa participates with a diversified portfolio of goods such as Powdered drink mix products (PDMP), Pasta, Snacks, Coffee, and Retail food. Also, this business line operates as an independent division, despite offering similar products that Nutresa has within its product portfolio. Recently, the company made the decision to unify Nutresa´s Mexico operations with TMLUC, and thus generating operating synergies for approximately USD 1 MM.

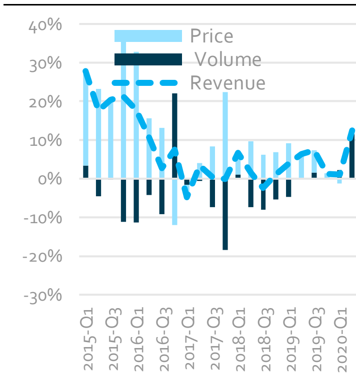
TMLUC enjoys a strong market position domestically (Chile) holding a 59.4% market share in the beverage segment, 28.1% in pasta, 17.2% in Coffee and a 13.6% in potato chips. Sales volumes show a significant change in recent years with year over year contractions of 7.6%, 5.0%, and 0.9% in 2017, 2018 and 2019, respectively. Yet, sales in Chilean pesos exhibit a positive trend as a result of an effective price-volume strategy and the configuration of a new portfolio mix of products. Consolidated figures in Colombian pesos have benefited from the cross-currency effect (the Chilean peso also depreciated against the dollar), generating a 5-year compound annual growth rate of 7.1% from 2014 to 2019. In terms of profitability, the EBITDA margin stood at 13.6% in 2019, expanding 61 bps with respect to 2018, and growing faster than revenue in the last five years (graph 39).

Graph 36: TMLUC – Products



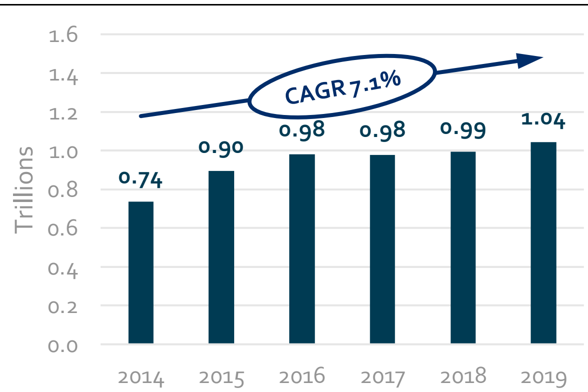
Source: Nutresa.

Graph 37: Cold Cuts: Consolidated



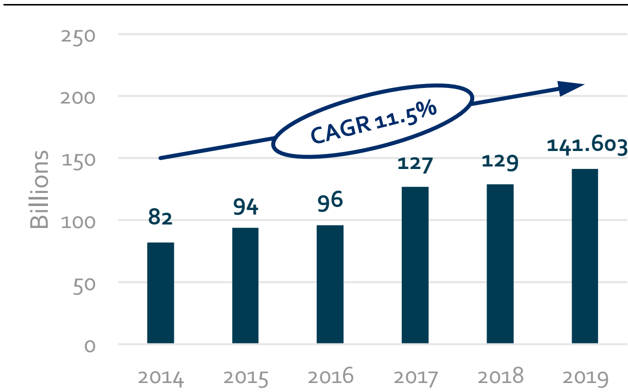
Source: Nutresa.

Graph 38: TMLUC – Revenue (COP)



Source: Grupo Nutresa.

Graph 39: TMLUC - EBITDA (COP)



Source: Grupo Nutresa.

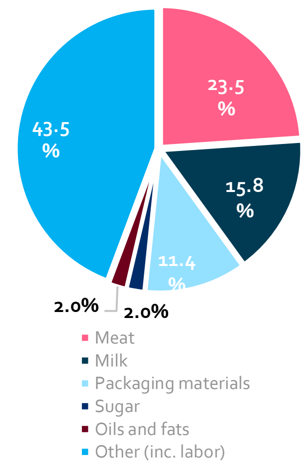
Retail Food

In Colombia, the retail food segment operates restaurant chains such as Hamburguesas El Corral, El Corral Gourmet, Leños & Carbon, Schapeli and Beer Station, along with the operation of international franchises such as Starbucks coffee and Papa John's. In total, it manages 342 points of sale domestically and 500 internationally, accounting for 4.9% (8.2% in 2019) of total consolidated sales and 3.2% (13.7% in 2019) of EBITDA, with an EBITDA margin of 22.6% (2019 figures). Approximately 69.1% of sales come from Colombia, where the Company holds the number one position on the hamburger segment with the fast-food chain restaurant El Corral.

Internationally, the company has presence in Central America with 186 points of sales operating its top ice cream brand POPS, contributing 15.7% to total consolidated revenue. On the other hand, in the Dominican Republic and the Caribbean the company has a leading market position with the Ice cream brand BON generating 15.2% of total revenue with 314 points of sale.

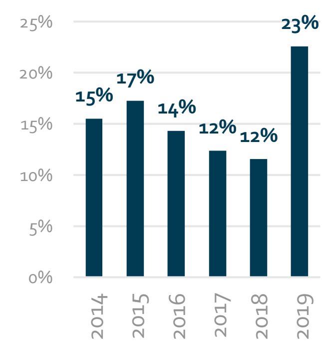
This segment has grown at a compound annual rate of 7.4% from 2016 to 2019, mainly driven by its operations domestically (8.1% CAGR). Up until 2018, in terms of profitability, revenue growth was not followed by improving operational margins as EBITDA growth exhibited a contraction of 4.8% from 2016 to 2018. Nevertheless, we noted a rapid recovery of the retail division in 2019 which enabled it to reach a 13.8% compound annual growth rate since 2016 (graph 43). The results obtained on 2019 as a result of the focus on profitable investments, with more upside potential and better operational margins, will unfortunately not continue into 2020 and possibly 2021 due to the negative effect of COVID-19, which led to the closure of restaurants during part of the first quarter and the all the second quarter of 2020.

Graph 40: Retail Food – Main Inputs



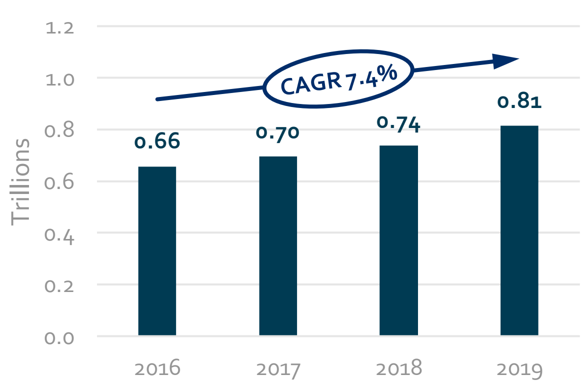
Source: Nutresa.

Graph 41: Retail Food: EBITDA margin



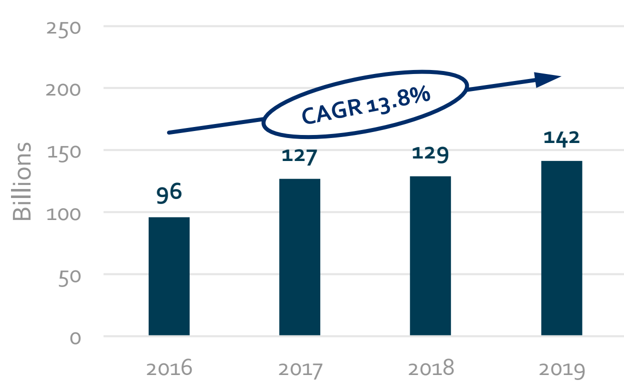
Source: Nutresa.

Graph 42: Retail Food – Revenue (COP)



Source: Grupo Nutresa.

Graph 43: Retail Food – EBITDA (COP)



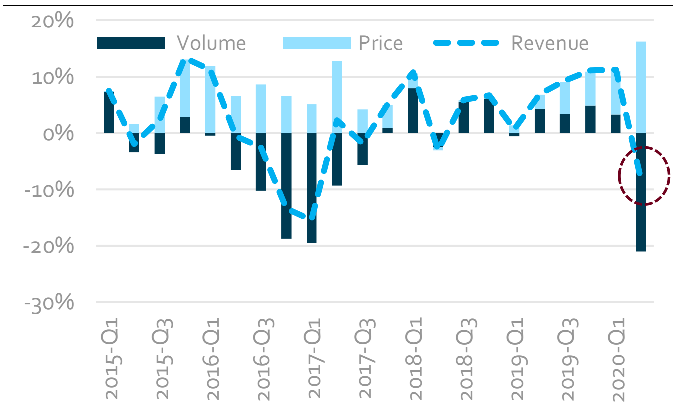
Source: Grupo Nutresa.

Ice Creams

The Ice cream division is relatively small, constituting only 4.6% of total consolidated revenue and 5.1% of total EBITDA with 100% of sales in Colombia. In terms of profitability, EBITDA margin stood at 14.2% in 2019 after seeing a rapid expansion of 200 bps with respect to 2018. Performance in 2019 was driven by a combination of both volume and price growth as opposed to the behavior seen in in 2018, where the timid growth seen was explained by a 5% increase in volumes sales. Nutresa competes on this division with its flagship brands Crem Helado (which enjoys the number one position in the Colombian market), Polet, Aloha, and Bocatto. Raw materials used on this product are mainly milk (22.0%), packaging materials (15.2%) and sugar (5.9%), among others.

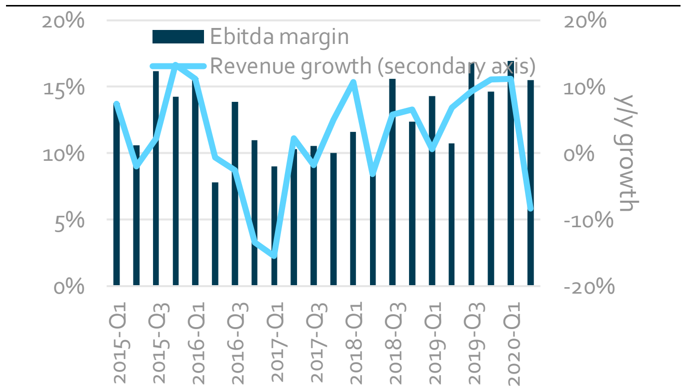
This segment has been hit hard by covid-19, as individuals are more prone to consume less leisure food products during economic downturns, and instead demand has increased on high protein and nutritious staple food goods that can be consumed at home.

Graph 44: Ice cream – consolidated (COP)



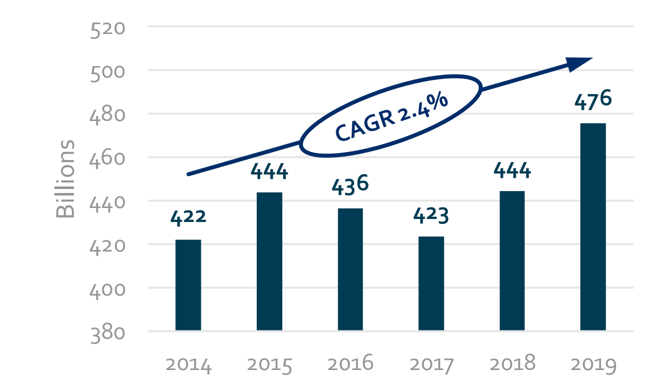
Source: Grupo Nutresa.

Graph 45: Ice cream – EBITDA margin



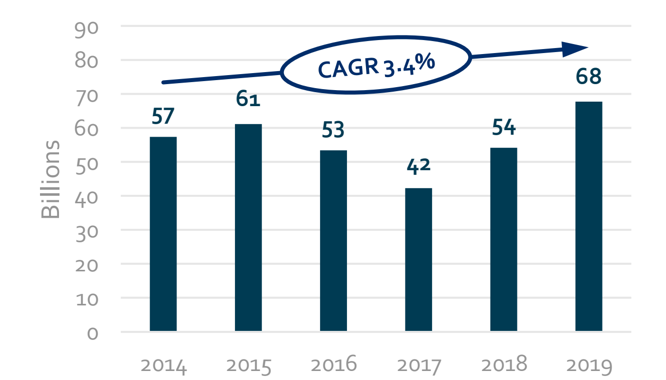
Source: Grupo Nutresa.

Graph 46: Pasta – Revenue (COP)



Source: Grupo Nutresa.

Graph 47: Pasta - EBITDA (COP)

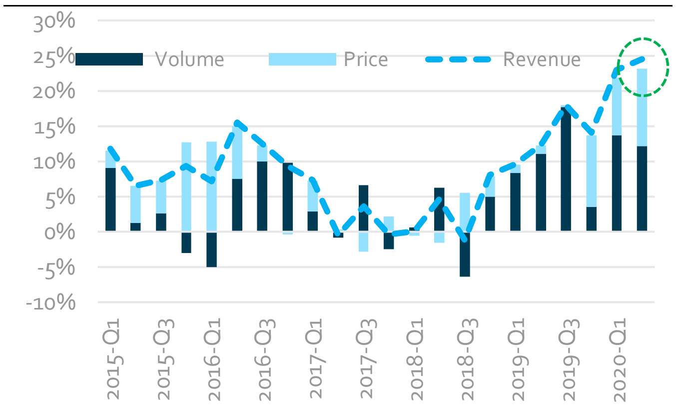


Source: Grupo Nutresa.

Pasta

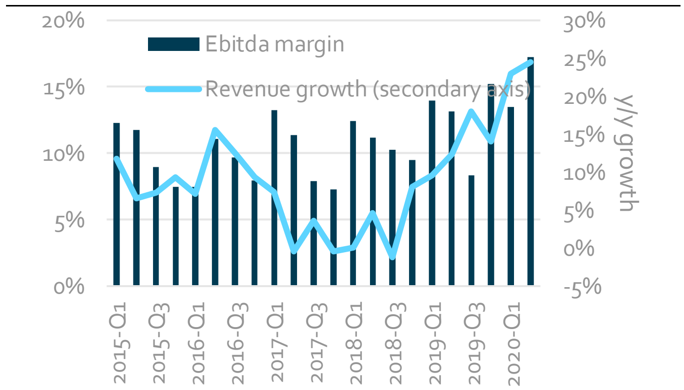
With 4.5% (4.0% in 2019) of total consolidated sales coming from the Pasta division, the segment is relatively small and accounts for only 4.5% (3.2% in 2019) of EBITDA, with an EBITDA margin of 12.6% (2019 figures). The division operates mainly in Colombia and includes well-known brands such as Doria, Monticello, and Comarrico. In terms of profitability, the business line is highly dependent on wheat (65.7%), hence fluctuations to wheat commodity prices will always have a direct negative effect on margins as well as dollar index inputs costs. Pasta revenue has been driven largely by volume sales growth, provided it continues in the second half of 2020, could lead to a two-figure revenue growth at a consolidated level, representing a rapid recovery when compared to 2018 and 2017 sales levels (exceptional growth in 2020 has to do with the positive effect of COVID-19 on staple food products). Margins have rerecovered as well, as EBITDA margin has stood on the 12%-14% range during 2019 and 2020. Nutresa is the market leader in the pasta division with a market share above 50.0% in the last three years.

Graph 48: Pasta – consolidated (COP)



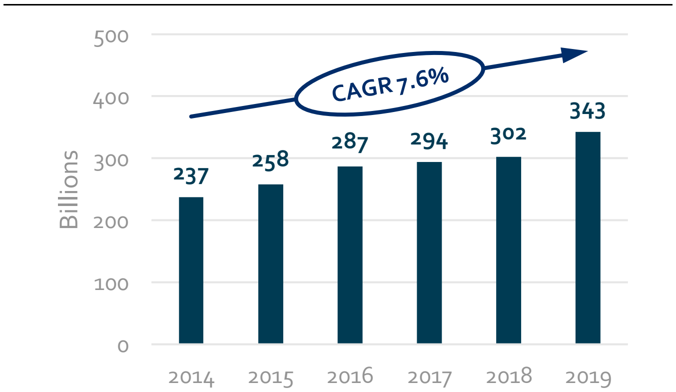
Source: Grupo Nutresa.

Graph 49: Pasta- EBITDA margin



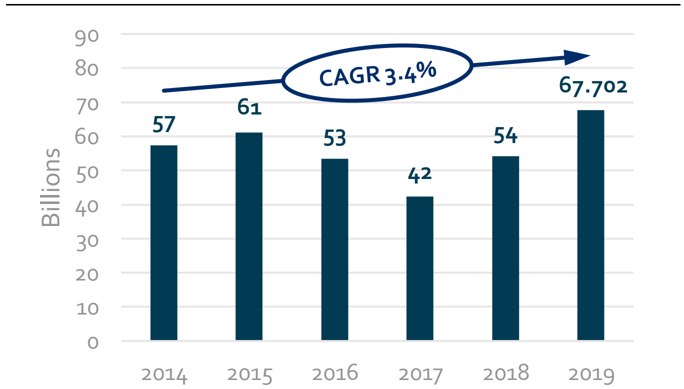
Source: Grupo Nutresa.

Graph 50: Pasta – Revenue (COP)



Source: Grupo Nutresa.

Graph 51: Pasta - EBITDA (COP)



Source: Grupo Nutresa.

Market Share

Nutresa faces a highly competitive market in almost every business line it operates. Direct competition includes Nestle, Mondelez, Colombina, Casa Luker, Frito Lay, Aguila Roja, Carozzi, La Muñeca and alternative private label brands. As of 2019, Nutresa had a 55.4% consolidated market share in the domestic market, which accounts for a 380-basis points reduction when compared to 2018. This sharp reduction comes as a result of a new full market estimation model measured by Nielsen, where for the first-time discounters and direct sales channel are included into the measurement. Market share is above 50% in almost every division in Colombia expect for its instant coffee, milk modifiers where Aguila Roja, Nestle, and Frito Lay operate.

In the international front, after the acquisition of TMLUC, Nutresa gained a strategic leading position in Chile in the cold beverage segment (59.4% market share) where 36.7% of Its TMLUC total division sales come from. The main competitors in Chile are Carozzi, holding the number two and number one position in the instant cold beverage category and pasta segments, respectively. In Mexico, market share in the cold beverage segment as of 2019 was 34.1%, representing a 130-bps reduction with respect to 2018.

One of Nutresa´s main competitive advantage is its solid product brand portfolio. Most of Nutresa´s brands are well positioned domestically and in some cases are the number one product in its division. Consumer preference and strong brand management, through numerous marketing mechanisms are essential, however, new consumer trends show a strong preference for affordable food products given the deterioration on disposable income worldwide. Consumers will seek further information and evaluate more carefully alternatives within the traditional retail formats. Hence, we expect a higher demand for Private label Brands, whose prices are lower than those of non-private label products, given that, no investment is required in advertising or marketing given that the retailer offering the product already has a strong brand position.

On the other hand, the threat of new entrants is almost non-existent, as Nutresa enjoys a well-organized and diversified distribution channel making it difficult for others to compete locally. Through economies of scale, the company makes its distribution channel efficient and competitive,assuring delivery on time on it is 1.4 million points of sale. On this regard, 51.4% of total consolidated sales come from small and self-service stores while retail sales account for only 24% of total sales.

Table 5: Market Share and Competition.

Segment	Brand	Market Share	Competition (Market Position)	Market Share
Cold Cuts	Zenu, Pietran, Ranchera & Rica	62.5%	#2 Private labels	13.3%
Biscuits	Noel, Tosh, Ducales & Festival	52.4%	#2 Mondelez	10.5%
			#3 Mondelez	9.8%
Chocolates	Jet - Chocolate Confectionary	69.3%	#2 Ferrero	8.2%
	Corona - Hot Chocolate	56.6%	#2 Casa Luker	21.6%
	Choco Listo - Milk Modifiers	28.4%	#1 Nestle	67.5%
	La especial - Nuts	48.1%	#2 Frito Lay	22.0%
Coffee	Sello Rojo - Roast and ground coffee	49.1%	#2 Aguila Roja	19.0%
	Colcafe - Soluble coffee	39.9%	#2 Nestle	38.1%
TMLUC	Instant Cold Beverages	59.4%	#2 Carozzi	39.3%
	Zuko - Pasta	28.1%	#1 Carozzi	41.8%
	Lucchetti - Coffee	17.2%	#1 Nestle	67.6%
	Gold - Potato Chips	13.6%	#1 Frito Lay	55.3%
	Mexico - Instant Cold Beverages	34.1%	#1 Mondelez	47.8%
Ice Cream	Crem Helado	# 1 Position in Colombia		
Pasta	Doria	52.5%	#2 La Muñeca	25.1%
Retail Food	Corral, Leños & Carbon	# 1 Position in Colombia		
	POPS and BONDS	# 1 Position in Rep. Dom. & CR		

Source: Nutresa and Corficolombiana.

Strategy: Leader Mindset

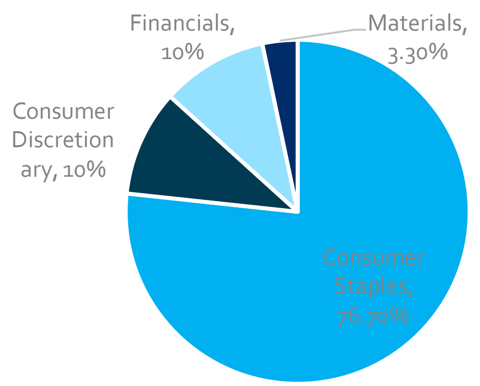
Acquisitions, joint ventures & partnerships

Grupo Nutresa has been actively engaged on M&A transactions as a strategy to grow inorganically. After reaching a leading market position in Colombia the strategy shifted towards gaining market share in countries with still growing potential in the food processing business.

Before unlocking Colombia's demand full potential (high growing middle class), growth was mainly focused domestically, and after achieving a solid market share, the Company began looking internationally for potential strategic targets to continue growing. Nutresa's first acquisition of Galletas el Noel in 1933, set the stage of a of series of investments regionally in Latin-American until the most recent acquisition of Cameron´s coffee in the United Sates.

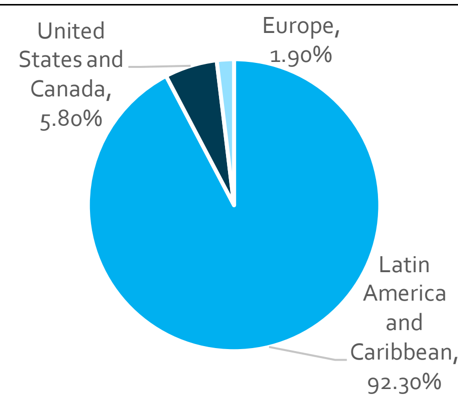
Since 2004, Nutresa has engaged in 12 different international and national acquisitions with the most relevant ones being El Corral and Tresmontes Lucheetti. Consequently, over the last five years almost 30% of revenue growth has been explained through inorganic expansion. On top of that, given the current Net debt to EBITDA indicator of 2.17x management has signaled that there may still be room to continue acquiring businesses as long as they serve Nutresa´s current value creation strategy. In our view, the company will continue its expansion strategy, mostly in North America, where it is said to have space to grow and establish a greater presence. Also, the company is likely to seek to expand into new countries in the region. Regarding products, we believe that the company will enter new healthier business lines such as organic food, however, Colombia may not be ready yet for the entry of a healthier segment.

Graph 52: Investments Composition



Source: Capital IQ.

Graph 53: Investments concentration



Source: Capital IQ.

Regional and product diversification

The acquisition of companies and brands outside of Colombia has allowed Nutresa to diversify its presence in more than 10 countries. As of 2019 more than 40% of its revenues came from countries other than Colombia. This strategy has allowed it to mitigate external shocks to the Colombian economy. Additionally, the diversification of its product portfolio has also been one of its strongest pillars. Nutresa manages nine lines of business satisfying different types of costumers and niche markets. Nevertheless, we believed that while acquisitions have significantly ramped up sales for Nutresa, some have had a dilutive effect on margins.

Performance: MEGAS

In addition to leading the continental expansion attained by a couple of Colombian companies during the first and second decades of the 21st century, among Nutresa's attributes, we must highlight the company's strong goal achieving track record. Nutresa tripled its 2005 sales in 2013, two years before the MEGA's deadline (Winning and Bold Goal, from its Spanish initials). This led to the current MEGA doubling 2013's sales by 2020, while keeping its EBITDA margin in the range of 12% - 14%.

Except for 2016 and 2017, the company has managed to keep its EBITDA margin within the MEGA's range. The MEGA revenue however does not seem feasible, given that the company needs to grow its sales around 27% from 2019 to 2020, and its revenue's Compound Annual Growth Rate (CAGR) between 2014 and 2019 was 8.9%. Anyway, the 8.9% CAGR is acceptable, considering the weak growth registered in the region´s economy, which is not expected to accelerate during the next couple of years.

The point to be highlighted is not the probability of achieving the MEGA's revenue goal, but the fact that regardless of increasing its sales, the value creation has been weak in the last couple of years. Furthermore, inorganic expansion has not increased equity values, given the acquisition values, their contribution to the ongoing business, and the maintenance cost of the acquired assets.

Given these elements, we expect a modest revenue growth on the following years, during which the company must keep sufficient Capex levels, in order to maintain its asset base. This revenue growth will not necessarily add value unless the company's margins improve. The space to create value to Nutresa's shareholders relies on efficiency, with an upside of identifying specific market niches. In case of inorganic growth, in addition to Capex requirements, the acquisition EV/EBITDA multiples must be lower than the current EV/EBITDA of Nutresa in order to create value. Also, our value definition relies on earning a return on investment capital above the weighted average cost of capital. This will be shown later in the valuation section.

2020 Mega

Table 6: Financial Goals

Indicator name	2020 goal
ROIC	20.0%
Total Sales	COP 10 Billion (organic)
International sales	USD 2 Billion (including acquisitions)
EBITDA Margin	12% -14% (including acquisitions)
Direct Labor Productivity	5% Annual Growth (sum of Kilograms /sum of manhours)

Source: Nutresa.

Table 7: ASG Goals

Indicator name	2020 goal
Remain in DJSI	Yes
Water Consumption	-0.3
Energy Consumption	-25.0%
Exploitation of Waste	90.0%
Greenhouse Gas (GHG) Emissions	-33.0%
Packaging Material	-12.0%
Use of Cleaner Energy Sources	100.0%
Development of Capabilities with Communities (# of projects)	1000 projects

Source: Nutresa.

Table 8. Others

Indicator name	2020 Goal
Weighted growth per year in the categories in which we participate	8.0%
Market Share Leaders	Maintain market share
Market Share Non - Leaders	Increase market share
Sales of innovative Products	15.0%
Success rate of launched products	25.0%
Portfolio with nutritional standards	Duplicate the portfolio of healthy profile standard productos
Innovative Success Stories per Employee	0.3 (Success Stories / # of employees)

Source: Nutresa

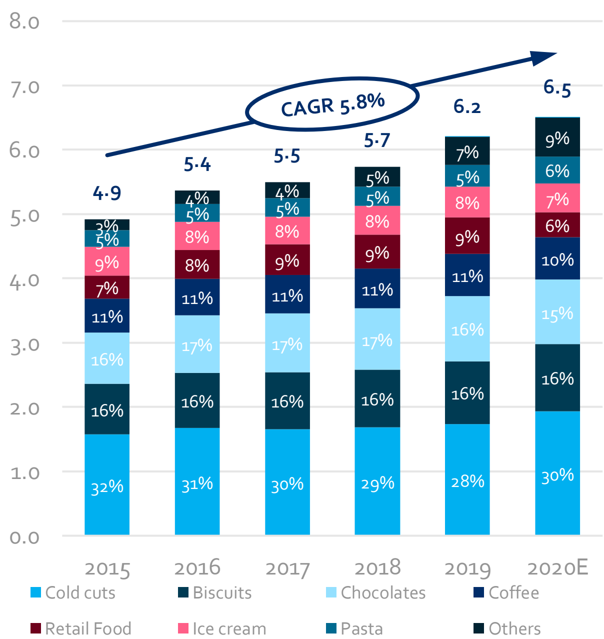
Nutresa revealed details of the MEGA 2030, setting to double its sales in 10 years while maintaining a return on capital above the cost of capital. In this case, the objective is to always obtain at least a 3% spread between ROIC and WACC. Additionally, we highlight the digital transformation target, seeking to achieve 20% of sales through the digital channel, and the commitment to the ESG guidelines, with ambitious goals in terms of reducing emissions (40%), use of recyclable packaging (100%), and inputs 100% of sustainable origin.

Valuation: Picturing Nutresa's New Normal

Changing Trends -Colombia

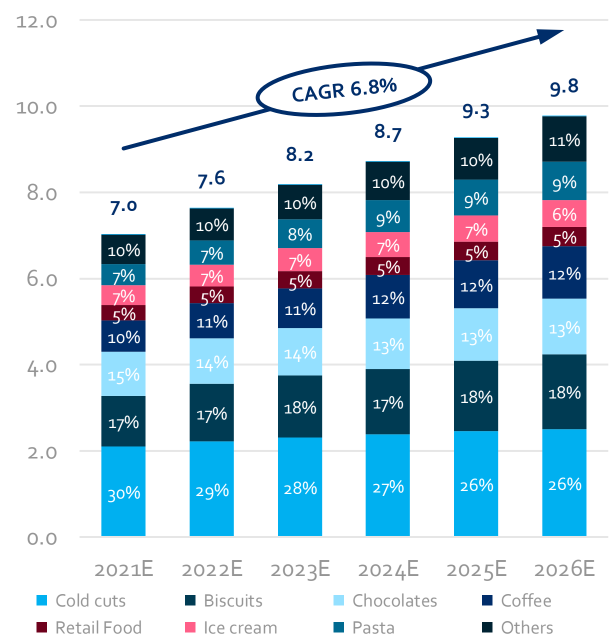
Due to the crisis triggered by COVID-19, performance across categories have been heterogeneous, at both the volume and price level, with varying degrees in magnitudes. Perhaps, as it was expected, demand for more discretionary food like products deteriorated, reflecting year over year double digit volume sales contractions. At the product level, this trend was observed in the Ice cream division and the retail business segment, also troubled by the closure of restaurants and mobility restrictions. In some categories, as it was the case for the biscuits and the ice cream segments, lower volume demand was partially offset by a price increase strategy, yet, not enough to display positive revenue in the ice cream division. On the other hand, staple consumer goods displayed an extraordinary performance, as the lockdown improved staple food shopping, with a preference for lower price food products. This new consumer behavior trend will inevitably lead to a reconfiguration on the relative weights each category plays on Nutresa´s local food portfolio. The graphs bellow show the reconfiguration we expect to see ending 2020 and moving forward in the next five years.

Graph 54: Revenue – Colombia (COP tn)



Source: Nutresa and Corficolombiana.

Graph 55: Revenue forecast - Colombia (COP tn)

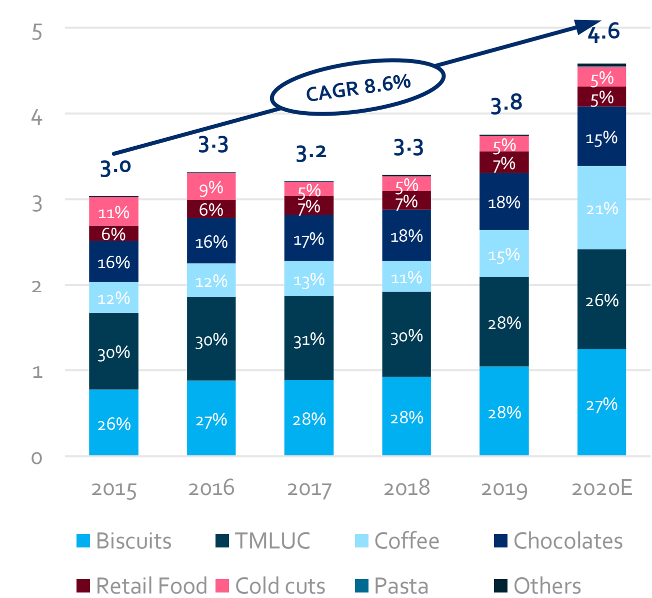


Source: Corficolombiana.

Changing Trends -International Operation

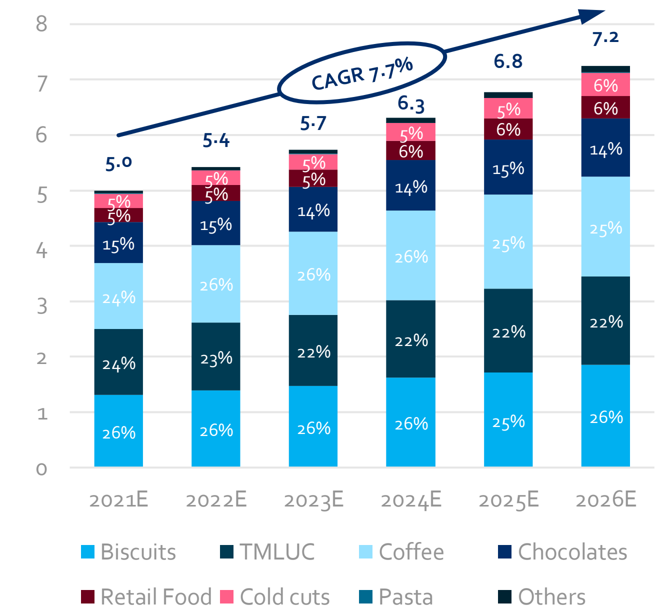
On the international side, given the acquisition of Cameron's Coffee last year, we are estimated that the coffee business could gain almost six percentage points of participation on the international operation in 2020 (graph 54). This would a mean, a complete reconfiguration on Nutresa's international business line portfolio. Also, just as it was the case in Colombia, the retail segment relative participation will diminish in 2020 to 5%.This is basically as a consequence of the lockdown measures implemented by various governments across Latin America, where the division was limited for a good part of the year to online shopping and deliveries. Despite of this, the segment will return to its average participation within the portfolio. Other categories, on the other hand, have benefited from both fundamental growth volume, and COP/USD depreciation (price increases in Colombian pesos above average). We believe this will continue to be the case, although, in a lesser magnitude.

Graph 56: Revenue – International division (COP)



Source: Nutresa and Corficolombiana.

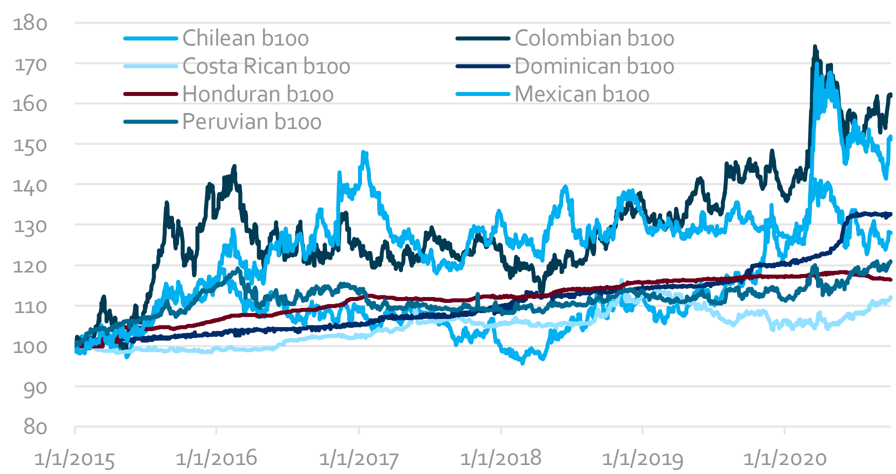
Graph 57: Revenue forecast – International division (COP)



Source: Corficolombiana.

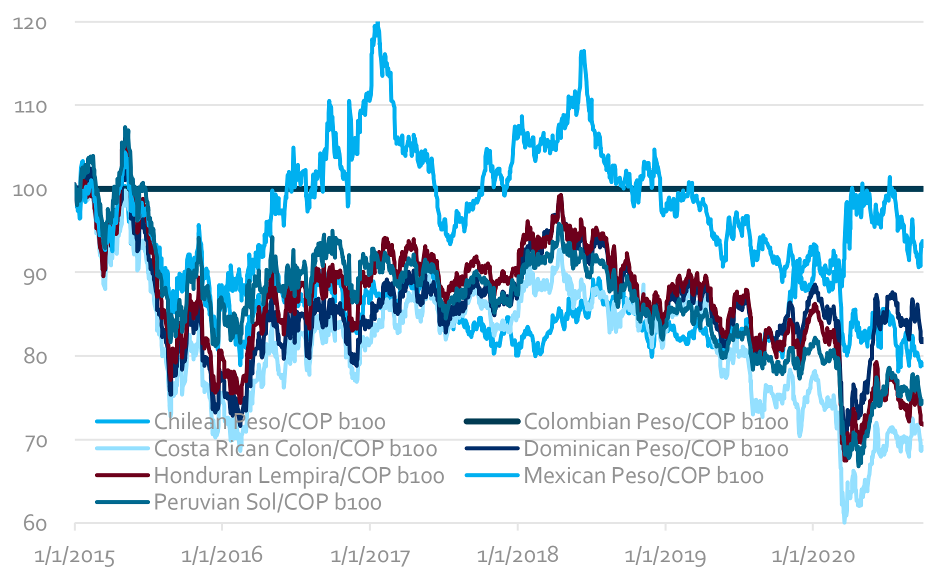
Given that the Colombian peso is the notional denomination of Nutresa, broadly speaking, FX effects costs considering the cost structure, where several items of the raw products basket are denominated -or influenced- by de US dollar. The cost effect depends on the type of products being produced in each country, and the country's devaluation (with respect to USD). On the other hand, the restatement of income (and earnings) into Colombian pesos undergo several complexities explained by cross currency effects and the fact that the Colombian peso has devaluated with respect to the other Latam countries where it has presence as well. As a result, the stronger devaluation of the Colombian peso, which results in cross currency devaluation as well, effects positively the consolidation of income and earnings from the different Latin-American countries where Nutresa has presence

Graph 58: FX (USD)



Source: Capital IQ and Corficolombiana.

Graph 59: Cross FX (COP)



Source: Capital IQ and Corficolombiana.

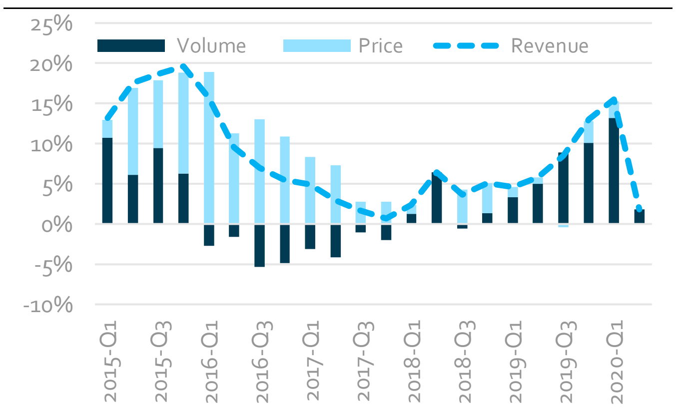
Macroeconomic Context

Colombia´s economy was greatly affected in 2014 as a result of the plunge in oil prices which significantly lowered revenue from commodity exports, impacting Colombia's economy on its deficits and external accounts. Consequently, Colombia experienced an increase on the current – account deficit which stood at almost 7% of GPD in 2015, resulting in a major depreciation of the Colombian peso.

The effect of lower revenues to the government, led the nation to put in place a contractionary fiscal policy by increasing the value-added tax (VAT) from 16% to 19%. This tax placed mainly on consumption of services and products caused a reduction on disposable income and thus a major contraction on consumer spending. This deterioration had a significant impact on sales volumes in Nutresa which as shown in graph 58, was compensated by an increase in prices of 13% and 5% in 2016 and 2017, respectively.

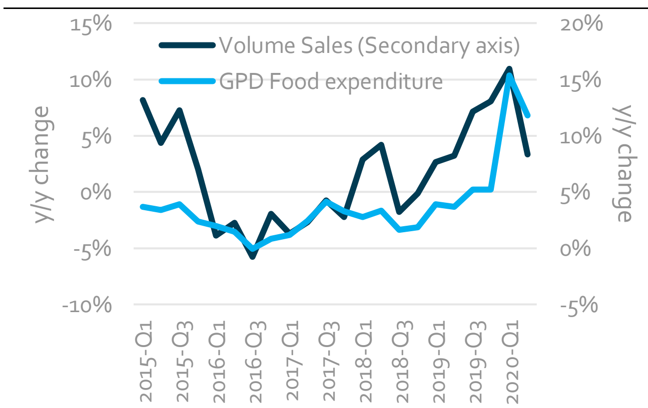
Nowdays, the economic downturn triggered by COVID-19 led to a global lockdown, impacting severely both supply and demand, and Colombia in particular went through one of the longest quarantines worldwide. The deep slowdown has had significant effects on unemployment, growth, and inflation. Central banks have lowered their benchmark rates and have implemented unconventional monetary measures. Locally, Banco de la Republica has lowered its repo rate 250 bps since March to 1.75%. And on the fiscal policy front, the government has created important stimulus packages to safeguard businesses and jobs in different sectors. Regardless of the situation, Nutresa has been resilient to the current shock so far. This is because 87% of sales come from basic food products, and this in turn, corresponds to 85% of Nutresa's cash flow generation. Locally sales grew by a timid 2% y/y in the second quarter of 2020, however international sales boosted overall performance both through better volume and prices fundamentals so far during the first three quarters.

Graph 60: Colombia – Revenue (COP)



Source: Grupo Nutresa.

Graph 61: GDP – Food expenditure



Source: Nutresa and Dane.

Macroeconomic Outlook

Corficolombiana´s macro research team forecasts (base case scenario, subject to a degree of uncertainty) that the Colombian economy will shrink by 6.2 % in 2020 and experience a 4.2% rebound in 2021 (real terms). Recently, the Chinese and European experience indicates that a second wave of infections is highly probable. Thus, the uncertainty about the performance of the economic activity remains high and a vaccine seems to be the requirement to consolidate economic recovery. Our economists forecast suggests a slow recovery due to the deterioration of the labor market and its effects on household consumption, which was the main engine for growth locally and Nutresa´s volume sales growth in 2019. Previous outlook was based on favorable growth conditions led by strong private consumption. Now, the macro team estimates It would take at least two years to return to the levels of economic activity seen prior to the shock.

Forecasts

Revenue

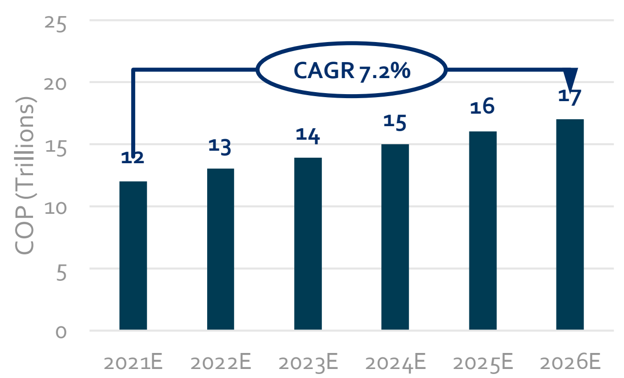
Our top line growth forecast is based mainly on household consumption expectations supported primarily on macro-economic conditions in the countries where Nutresa has a significant presence. In Colombia, we projected a five-year compound annual growth rate of 6.8% explained largely by an upward trend growth of sales volumes (4.7% CAGR) and the convergence of prices to core inflation. Our base case scenario in Colombia assumes a slow rebound in economic activity in 2021, and the persistence of strong demand on staple food categories until the end of the year (Pasta, Cold Cuts and Biscuits).

Internationally, Biscuits, TMLUC and Coffee account for roughly ~74% (2020 end of year forecast) of total international sales. Hence, our revenue projection outside of Colombia is driven primarily by these three divisions.

Particularly, TMLUC had a poor performance in terms of volume growth in 2019, nevertheless, it has recovered exceptionally in 2020 in part due to demand for defensive food products (Pasta), and strong market share in its leading segment in Chile (PDMP).In addition, prices during the year have almost been neutral due to a cross-currency exchange rate effect (devaluation of both the Colombian and Chilean peso). For this business line, we are estimating a five-year compound annual growth rate of 6.0% based on strong long-term fundamental growth perspectives in both Chile and Mexico. On the other hand, the biscuit, and the coffee divisions, should continue to benefit from a strong U.S dollar, combined with a better economic outlook in this country (large part of their sales comes the U.S) In the coffee division in particular, we are estimating a larger percentage of sales coming from this segment given the acquisition of Cameron's coffee last year.

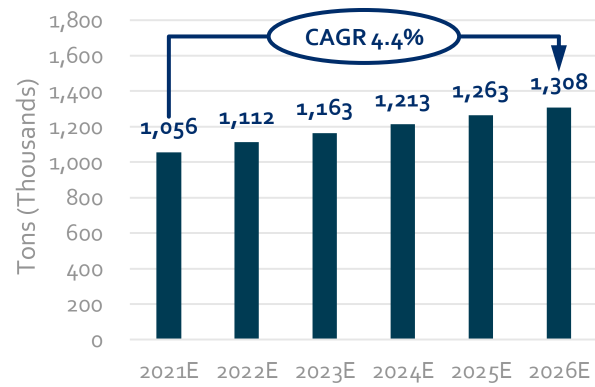
Overall, we are forecasting a five-year compound annual growth in revenue of 7.2% (nominal) for Grupo Nutresa with sales volumes increasing at a rate of 4.4% during the same projection period. It is important to note that revenue growth on our model responds particularly to three main factors: i) convergence of price volatility to country-weighted average inflation; ii) a small lag on Nutresa´s performance with respect to the overall economy; and iii) slight reconfiguration on portfolio-product weights (taking into account recent acquisitions and the relative growth of some categories).

Graph 62: Consolidated Revenue (COP)



Source: Grupo Nutresa.

Graph 63: Consolidated Volume



Source: Grupo Nutresa.

Table 9: Revenue – Summary of results

Consolidated / Revenue	2015-2020 (CAGR)	2021-2026 (CAGR)
Cold cuts	2.5%	4.4%
Biscuits	7.9%	7.7%
Chocolates	6.0%	5.7%
Coffee	12.8%	9.5%
Retail Food	2.7%	6.6%
Ice cream	0.6%	6.0%
Pasta	10.2%	12.7%
Others	30.6%	10.3%
TMLUC	5.5%	6.0%
Total	6.9%	7.2%

Source: Grupo Nutresa and Corficolombiana.

Table 10: Volume – Summary of results

Consolidated / Volume	2015-2020 (CAGR)	2021-2026 (CAGR)
Cold cuts	-1.3%	2.3%
Biscuits	0.7%	4.4%
Chocolates	0.5%	3.0%
Coffee	7.5%	4.9%
Retail Food	-1.3%	5.2%
Ice cream	-5.4%	2.2%
Pasta	5.9%	6.6%
Others	14.1%	8.6%
TMLUC	-1.4%	4.3%
Total	1.0%	4.4%

Source: Grupo Nutresa and Corficolombiana.

Cost of Goods Sold

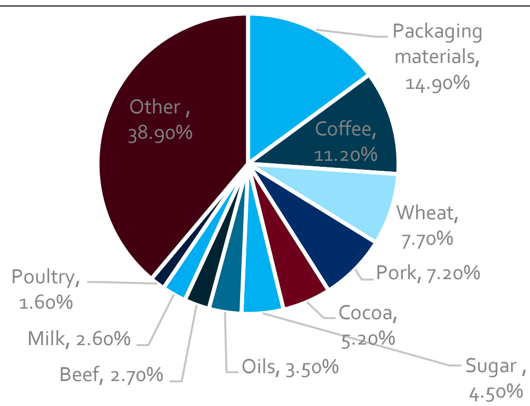
Nutresa prides itself from its product diversification strategy (no commodity represents more than 13% of Nutresa´s total production costs). This partially shields the company from specific commodity price volatility, however, when there is a generalized upward market price movement on most commodities, as it has been the case during the last four quarters, the company sees its margins shrink. However, price corrections are somewhat offset by the execution of effective hedge strategies (mainly futures).

In addition to commodity price movements, Nutresa is exposed to the U.S. dollar, as 60% of the companies' total cost of goods sold are indexed to this currency. on our view, following futures contracts and Nutresa´s Commodity Index based on the last the published basket, rising commodity prices and the negative exposure to COP depreciation against the dollar will continue deteriorating Nutresa´s gross margin. Among categories, some have seldom materialized this effect, as volume growth and economies of scales have diluted fixed costs. Others, however, in the medium term will most likely see more cost pressure from rising commodity prices as is the coffee division and the chocolate category, where most of its input's costs are concentrated on one single commodity.

Anyhow, one step in limiting risk and defending margins is to implement pricing strategies, however, this is somewhat constrained, at least in the medium term, given the current deterioration on disposable income. Anywise, the change in the mix of products sold, have led to an average price increase throughout 2020. This due to less industrial sales within the mix of total sales in the portfolio, where volumes sold are generally high, but prices are low.

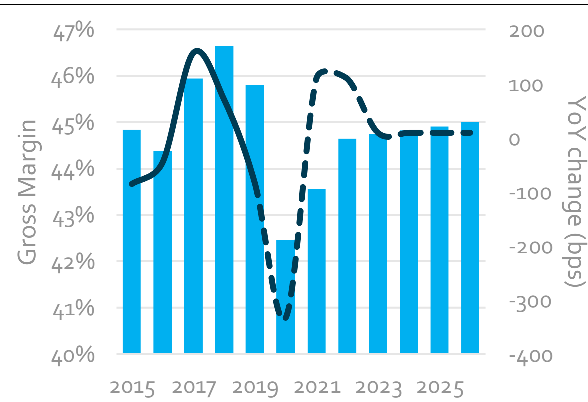
On our base case scenario, we carried our forecast based on an upward trend on commodity prices, which will partly rise inputs costs along with the negative effect of Nutresa´s income statement on COP/USD depreciation.

Graph 64: Diversification of commodities



Source: Grupo Nutresa.

Graph 65: Cost of goods sold



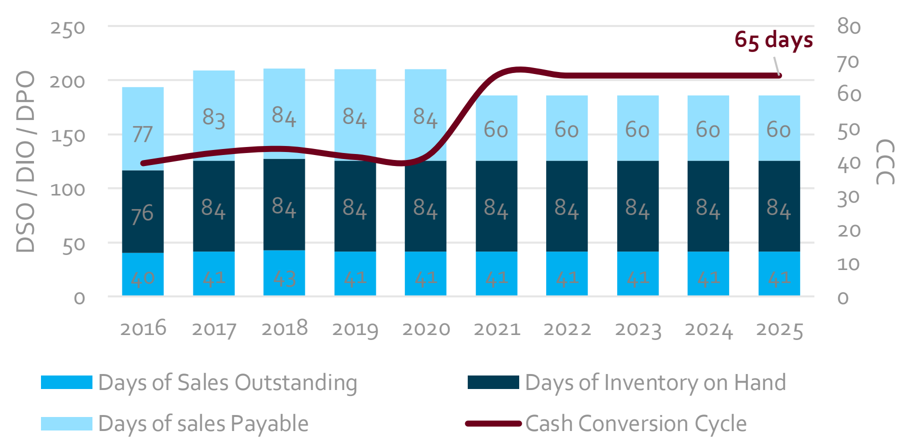
Source: Grupo Nutresa and Corficolombiana.

Working Capital

Nutresa has proven to effectively manage its cash conversion cycle. While this strategy allows the firm to maximize its cash from operations during certain periods, the firm has not abused from its leading market position. In addition, during the critical months of the COVID-19 crisis, the company has been paying small businesses in advance, acknowledging the vulnerability of these businesses to the current economic environment, and its further impact on its own ongoing business.

On average, Nutresa pays its suppliers in 84 days, meaning the company defers approximately 23% of its costs of goods sold. It normally requires payment from its own customers in 41 days and it keeps an inventory turnover of 4.3x times. As a result, Nutresa has managed to sustain a cash conversion cycle of 41 days on average. Moving forward we expect Nutresa´s cash operating cycle to remain on the 40 to 42 days range level. On our view, by forcing out payments to suppliers to almost three months, Nutresa manages to have more cash available to work on several projects. Meanwhile, the current bill "ley de plazos justos" issued on July 23 of 2020 (Law 2024), represents a downside risk on Nutresa´s share price, given it would require firms to pay suppliers in less than 60 days in the first year of implementation and 45 days from the second year onwards. After adjusting Nutresa´s days payable outstanding to 60 days, Nutresa sees a large cash outflow in 2021 and 2022, moreover, on the long term its cash conversion cycle increases to 65 days on average. We expect this effect to have 4 -5% downside effect on Nutresa´s share price.

Graph 66: Cash Conversion Cycle



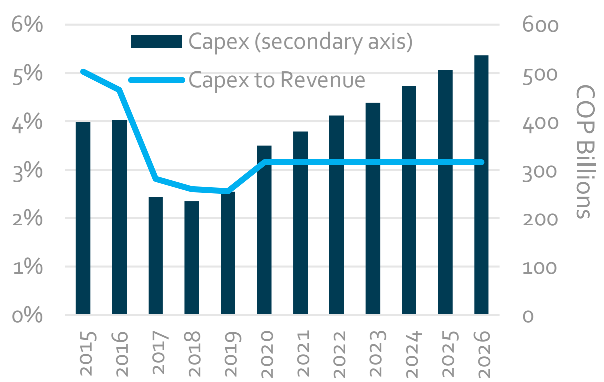
Source: Corficolombiana.

Property, Plant & Equipment

We noticed a rapid deceleration on capital expenditure over the las three years. In fact, the Revenue to Capex ratio has trended downwards since 2016. As a result, depreciation grew faster than capex during this period, resulting on a net decrease of property, plant, and equipment (Capex to depreciation ratio was less than one in 2017, 2018, and 2019).

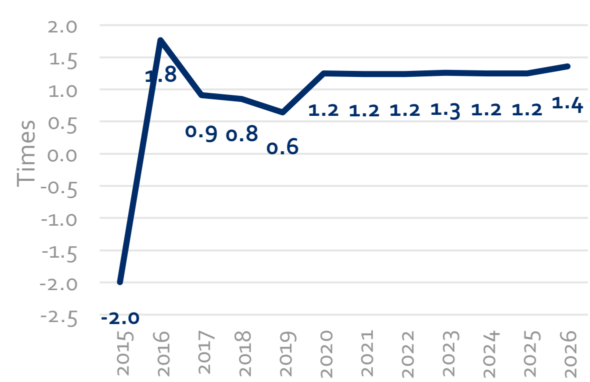
There is reason to believe that the company cannot continue avoiding on its investment business plan for the replacement of fixed assets and strategic capex. Therefore, on our discounted cash flow model, we explicitly normalize capital expenditure to its historic levels prior to 2017. By running this scenario, Nutresa faces higher cash outflows, necessary to continue operating and growing its long-term assets, also implying an expectation of future growth.

Graph 67: Capital Expenditure



Source: Grupo Nutresa and Corficolombiana.

Graph 68: Depreciation to Capex ratio



Source: Nutresa and Corficolombiana.

Capex, ROIC & Acquisition Analysis

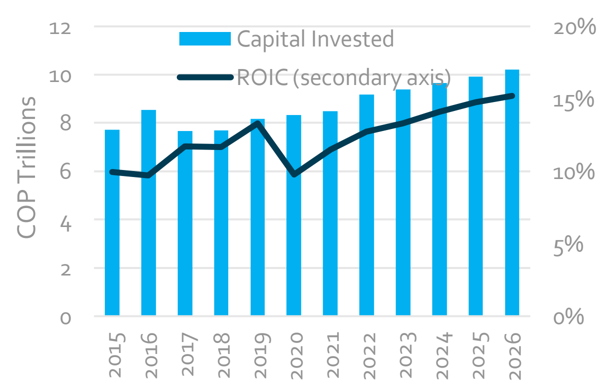
After adding TMLUC as a new business segment, Nutresa gained a leading market participation in several food categories in Chile, and to a lesser extend in Mexico reflecting the company´s core policy of entering markets where it can obtain a high market share. Most recently, Nutresa improved its exposure in the United Sates by acquiring Cameron´s Coffee for a total consideration of USD 113 MM. After closing the transaction, United states now accounts for approximately 12.5% of total consolidated sales.

Additionally, management has disclosed its position on future capital expenditure where part of it will be focused on acquiring businesses. Nutresa´s business plan for investment involves the possibility to expand its operations internationally and strengthen its market participation domestically. Accordingly, when observing the company´s balance sheet, on our view Nutresa has somewhat stable leverage indicators. The last twelve months Net Debt to EBITDA (2.5x) ratio is within its peer's average (2.4x) , and after adjusting it to three times, it gives Nutresa the flexibility to raise additional and cheap (given current rates) debt for a total amount of COP 680 billion, which considering past transactions and current multiples ,would leave the possibility for reasonable large acquisitions.

Overall Nutresa acquires businesses to seek potential long-term future benefits by capturing operational efficiencies and synergies on value-added targets. On our view, to accomplish incremental value generation, expansion must be sough through profitable growth, in other words, top line growth cannot be dilutive to margins which has not necessarily been the case in recent years. To measure how efficient Nutresa invests its capital, we opted to use ROIC as it is an indicator unaffected by financial leverage. Given that Nutresa is a company that has been active in mergers and acquisitions and we expect the company to continue doing deals going forward, we decided to include Goodwill on the denominator. After adjusting goodwill and carefully considering past write-offs and acquisitions we observed that Nutresa´s ROIC (13.3%%) is above its cost of capital. On the other hand, when observing not just the absolute value of ROIC, but also the return on incremental invested capital (ROIIC), we noticed that in 2018 this value was 0,03% and grew 7x in 2019. As this value is comparing the net change in Net Operating Profit After Taxes to the invested capital made in the 2018, Nutresa was able to deliver excess capital returns, however this was not the case in 2017 and 2018. Also, when computing ROC (Tax Adjusted EBIT / Average Capital Invested), Nutresa´s LTM return on capital (6.8%) is below its peer´s average (10.9%).

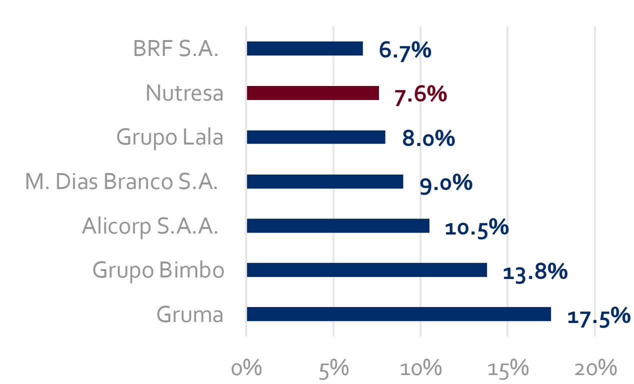
Considering Nutresa´s past deals, the company´s 2030 MEGA objective and current market multiples, more specifically, transactional multiples on the food processing industry space, we expect Nutresa to be able to find strategic targets at reasonable attractive prices, and even execute part of its buyback program in the medium term. Additionally, given current interest rate levels, which we expect to persist until the end of 2021, the company could also take advantage of very cheap debt to acquire businesses, distribute dividends, or supports its buyback program.

Graph 69: ROIC



Source: Corficolombiana.

Graph 70: LTM Return on Capital



Source: Capital IQ.

Valuation Conclusion

Discounted Cash Flow

All the information described in the previous sections, together with the corresponding analyzes, were used for our discounted cash flow valuation model, from which we arrived to our target price (12- months forward) per share of COP 29,219. This yields an implicit EV/EBITDA multiple of 10.38X.

We value Nutresa´s food business at COP 12.2 Trillion based on a DCF approach and its investment portfolio based on current market values. We discounted the unlevered cash flows assuming a discount rate of 10.53%. Based on our two- stage unlevered DCF model Nutresa is expected to generate COP 897 billion of free cash flow in 2026 and cash flows are expected to grow at 5.3% each subsequent year in perpetuity.

Beyond the explicit forecast period, the following simplifying assumptions were made:

i) Freely available cash flows to all providers of capital are considered after accounting for all necessary reinvestments. In this case, capital requirements include the appropriated replacement of fixed assets and necessary reinvestments required to match Nutresa´s growth rate.

ii) We assume Nutresa maintains the current cash conversion cycle of 65 days. Under this assumption we grew accounts receivable at the revenue growth rate, Accounts payable with the rate that cost of goods sold is growing and inventory by tracking inventory turnover and maintaining status quo.

To remove certain subjective assumptions, we also calculated Terminal value by using the exit multiple approach. In this case we multiplied the LTM EBITDA derived from a trading comps analysis (Median 10.X) with the EBITDA in the last forecast year (2026). This yields a target price of COP 31,842 and implies an EV/EBITDA multiple of 11.32x.

Table 11: WACC

Risk Free rate	**2.0%**
Equity Risk Premium	**7.64%**
Beta (βL)	**0.76**
Country Risk Premium (Adj.)	**2.95%**
Ke USD	**10.8%**
Devaluation	**1.39%**
Ke COP	**12.3%**
Kd	**7.50%**
Tax rate	**27.9%**
Kd *(1-T)	**5.41%**
Debt Weight	**25.7%**
Equity Weight	**74.30%**
Wacc	**10.5%**

Source: Corficolombiana

Table 12: Betas (Informative only)

	Beta (βL) 5Y	Market cap	Debt	Tax rate	Beta (βUL)
Gruma	0.14	4,307	1,165	36.3%	0.12
BRF S.A.	0.93	3,319	3,870	34.0%	0.53
Alicorp S.A.A.	0.73	1,974	857	35.20%	0.57
Grupo Bimbo	0.06	7,501	5,653	37.6%	0.04
Grupo Lala	0.61	1,310	1,314	32.0%	0.36
M. Dias Branco	1.10	2,675	168	5.9%	1.04
Nutresa	0.61	2,705	1,071	29.4%	0.48

Source: Capital IQ and Corficolombiana.

Table 13: Valuation metrics (COP MM).

	2021E	2022E	2023E	2024E	2025E	2026E
EBIAT (NOPAT)	864,799	1,058,874	1,139,802	943,764	1,017,105	1,113,612
D&A	306,168	331,709	348,431	379,299	404,923	395,449
Capex	(378,742)	(411,615)	(438,663)	(473,415)	(505,621)	(536,491)
Change in NWK	(67,180)	(574,492)	(81,564)	(91,263)	(119,504)	(117,796)
Free Cash Flow	725,045	404,476	968,006	758,384	796,903	854,773
WACC	10.53%					
PV FCF	695,409	350,971	759,903	538,607	512,024	496,864
Perpetuity						17,333,184
Sustainable growth rate (g)	5.3%					
Cumulative Present Value of FCF	3,353,777					
Present value of terminal value	10,075,463					

Source: Corficolombiana.

Table 14: Implied Enterprise Value / LTM EBITDA

		Exit Multiple				
		9.0	9.5	10.0	10.5	11.0
WACC	9.5%	10.8x	11.2x	11.7x	12.2x	12.6x
	10.0%	10.5x	11.0x	11.4x	11.9x	12.4x
	10.5%	10.3x	10.7x	11.2x	11.6x	12.1x
	11.0%	10.1x	10.5x	10.9x	11.4x	11.8x
	11.5%	9.8x	10.3x	10.7x	11.1x	11.5x

Source: Corficolombiana.

Table 15: Implied Share Price

		Exit Multiple				
		9.0	9.5	10.0	10.5	11.0
WACC	9.5%	30,247	31,574	32,902	34,229	35,556
	10.0%	29,575	30,870	32,165	33,460	34,755
	10.5%	28,922	30,185	31,449	32,712	33,976
	11.0%	28,287	29,520	30,753	31,986	33,219
	11.5%	27,669	28,872	30,076	31,279	32,482

Source: Corficolombiana.

Leveraged levels were calculated based on the assumption of compliance of mandatory debt, and a revolving credit facility was included to assure the preservation of a minimum cash level corresponding to 60 days of operation. The company draws down new debt and pays down pre-existing debt based on this supposition and in general terms, capital structure is stable throughout the forecast period.

Catalysts to reduce its share price in the next months includes the impossibility of renewing legal stability contracts, implying a relatively higher marginal tax rate, lowering company valuation. In this case, increasing its marginal tax rate by 100 bps, could represent a downside on its implied per share price of at least 3%.

Relative Valuation

Based on market multiples of operationally similar companies, Nutresa´s current market price seems to be in line with its peer's average and overvalued by some multiples, expect on a Price to Earnings and Price to Book ratio, where Nutresa would be undervalued by 13.4%. Overall, low multiples observed on Nutresa comps analysis comes as a result of the major sell off of equities experienced in mid-March, from which some comparable companies' stock price haven't recovered to pre-pandemic levels. On a forward basis, Nutresa still exhibits higher valuation multiples.

Table 16: Peer's comps valuation multiples

	EV / Revenues	EV / EBITDA	EV / EBIT	P/E
Nutresa	1.3	11.1	14.3	18.4
Gruma	1.5	9.9	12.4	22.3
BRF	1.0	8.4	12.6	13.2
Alicorp	1.0	7.9	10.6	17.8
Grupo Bimbo	1.0	7.8	10.7	33.1
Grupo Lala	0.8	8.8	12.8	17.6
M. Dias Branco	2.3	15.4	19.7	21.4

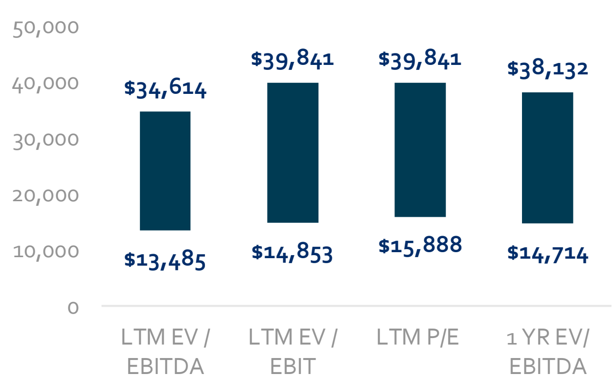
Source: Capital IQ and Corficolombiana.

Table 17: Forward valuation multiples

	EV / Revenues	EV / EBITDA	EV / EBIT	P/E
Nutresa	1.3	9.7	NA	19.0
Gruma	1.3	7.7	NA	16.0
BRF	0.9	7.3	NA	7.9
Alicorp	1.0	7.6	NA	13.6
Grupo Bimbo	0.9	7.3	NA	23.6
Grupo Lala	0.7	7.2	NA	17.6
M. Dias Branco S.A.	2.0	14.6	NA	19.3

Source: Capital IQ and Corficolombiana.

Graph 71: Relative Valuation



Source: Corficolombiana.

Table 18: LTM Multiples

	EV / Revenues	EV / EBITDA	EV / EBIT	P/E
High	2.3	15.4	19.7	33.1
Low	0.8	7.8	10.6	13.2
Median	1.0	8.8	12.6	18.4
Mean	1.3	9.9	13.3	20.5

Source: Capital IQ and Corficolombiana.

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