



PATIENT CAPITAL

GEDULDIGES KAPITAL

2022 FEMSA: A Trip to Mexico and the Largest C-Store Chain You Never Heard of (FMX:US)

Covesto Patient Capital | ISIN: DE000A2PR0E7 WKN: A2PR0E

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FEMSA AT A GLANCE

FEMSA

Ticker: FMX

Share Price: \$64

Dividend: \$1.65 (2.6%)

Shares (diluted): 358m

Market Cap: \$23.1 bn

EV: \$31.7 bn

Author: Timo Buss

Disclosure:

*Covesto Patient Capital
owns FMX shares since
Jan. 2020 at an average
cost of \$68 per share*

20 Thousand+
CONVENIENCE STORES („OXXO“-BRAND)

13 Million
DAILY OXXO CUSTOMERS

\$27 Billion
REVENUE IN FY21

\$1.4 Billion
NET PROFIT IN FY21 (CONTROLLING INT.)

47.2 Percent
EQUITY STAKE IN COCA-COLA FEMSA

14.8 Percent
EQUITY STAKE IN HEINEKEN

#1
C-STORE CHAIN IN MEXICO

#2
RETAILER IN MEXICO (WALMEX IS #1)



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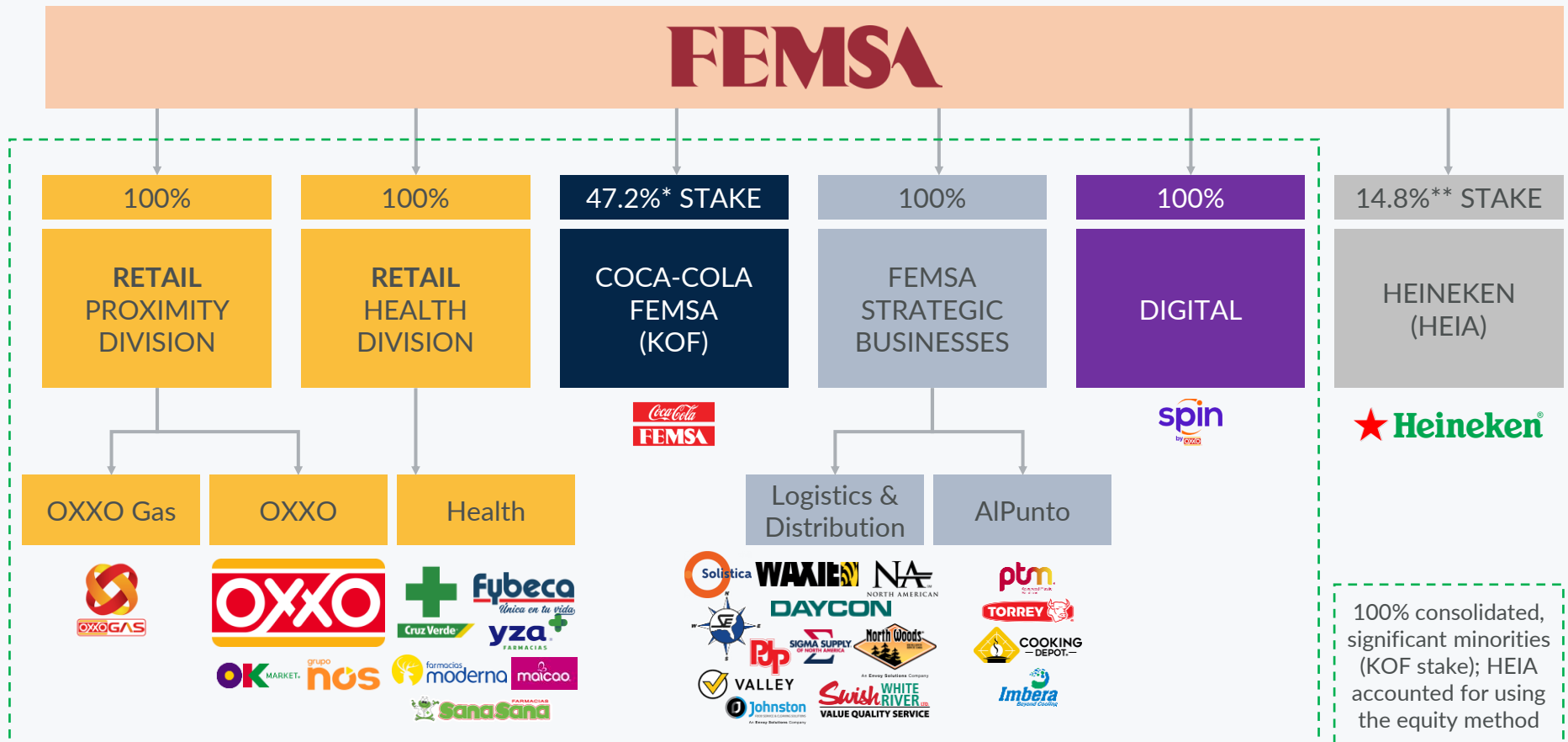
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FMX HAS 6 SEGMENTS, 2 OF THEM EQUITY STAKES

FMX is a beverage and retail conglomerate based in Monterrey, Mexico. It owns the country's largest c-store chain (OXXO), 47.2% of the world's largest Coca-Cola bottler Coca-Cola FEMSA (KOF), 14.8% of the world's second largest brewer Heineken (HEIA) plus emerging distribution and digital businesses.



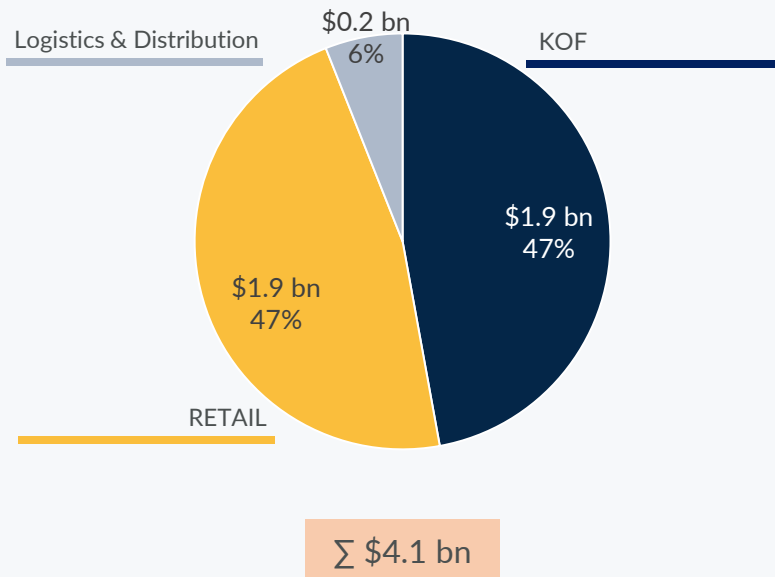
*FMX controls 56% of all KOF voting rights, 28% of KOF shares are held by The Coca-Cola Company, 25% is free-float

**FMX holds 8.6% of Heineken, N.V. and 12.3% of Heineken Holding, N.V., which represents an economic interest of 14.8% in the entire Heineken Group; Image Source: own visualization

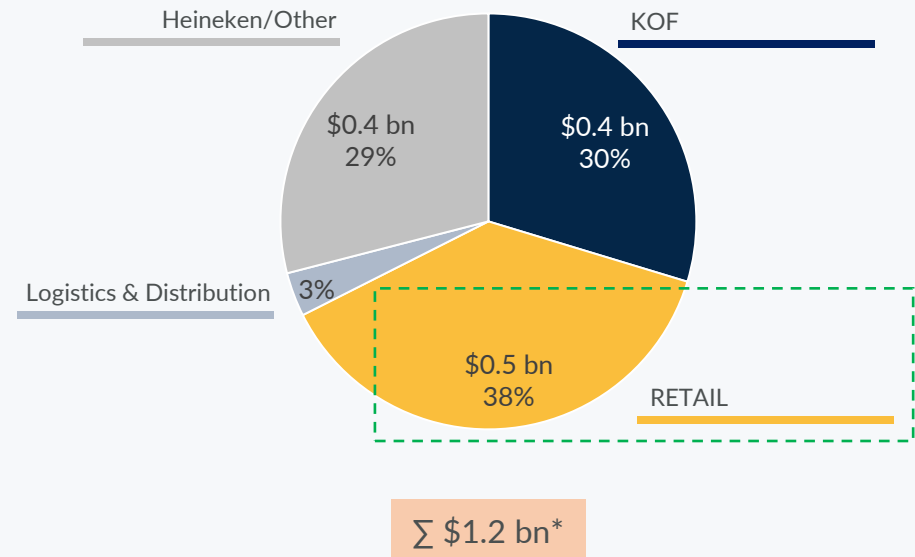
RETAIL: C-STORE CHAIN OXXO IS THE CROWN JEWEL

RETAIL and the 47.2% equity stake in KOF contribute roughly 50/50 to EBITDA. Taking into account the share of profit from HEIA (equity accounted) and KOF's minorities, RETAIL (mostly OXXO) crystallizes on a net basis as the company's crown jewel driving 38% (\$0.5 bn) of FMX's controlling interest net profit.

EBITDA Split FY21



Net Profit Split FY21*



OXXO NOW AND THEN

1978
(1st store)



2022
(20k+ stores)

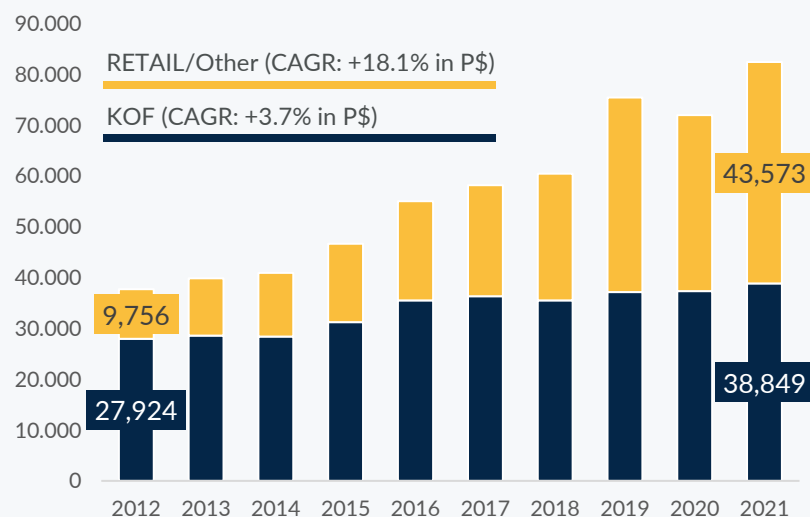


RETAIL EARNINGS GREW STRONGLY IN BOTH P\$ AND \$

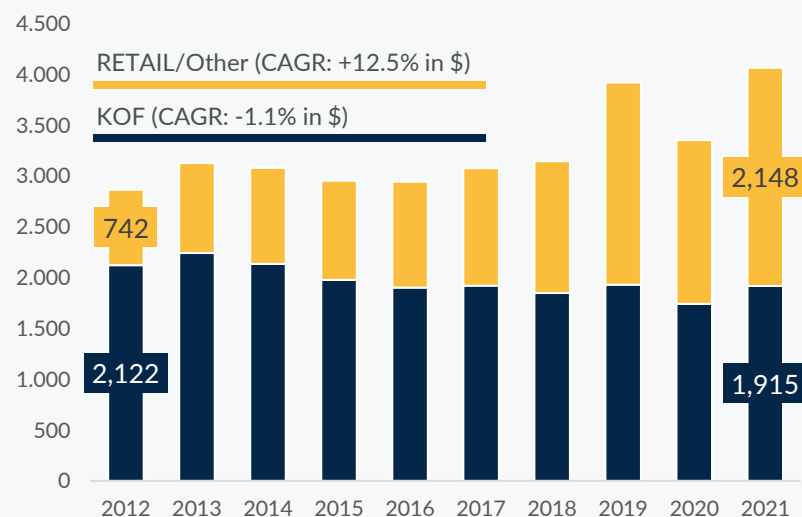
From FY12-21, company-wide EBITDA grew +4% p. a. on average (in \$m). This increase was solely driven by strong double-digit increases in RETAIL while KOF's EBITDA (in \$m) declined slightly over the period.



FMX EBITDA
(in local currency, P\$m)



FMX EBITDA
(in \$m)



Avg. USD/MXN

13.16

18.75

20.28

KOF, HEIA, FX DRAG DOWN OVERALL EBITDA GROWTH

From FY12-21, RETAIL delivered a 3x gain in EBITDA (in \$) while KOF (100% consolidated) and Heineken (non-consolidated) stayed flat, dragging down FMX company-wide EBITDA CAGR to 4.0% over the period.

EBITDA DEVELOPMENT (\$M)

YEAR	FEMSA	KOF	HEINEKEN*	RETAIL
2012	2,864	2,122	6,251	742
2013	3,124	2,241	6,004	884
2014	3,077	2,133	5,287	944
2015	2,952	1,976	5,128	977
2016	2,943	1,900	5,154	1,043
2017	3,076	1,919	6,137	1,156
2018	3,144	1,846	5,763	1,298
2019	3,920	1,930	6,463	1,990
2020	3,353	1,740	5,070	1,613
2021	4,063	1,915	5,901	2,148**
CAGR	+4.0%	(1.1%)	(0.6%)	+12.5%

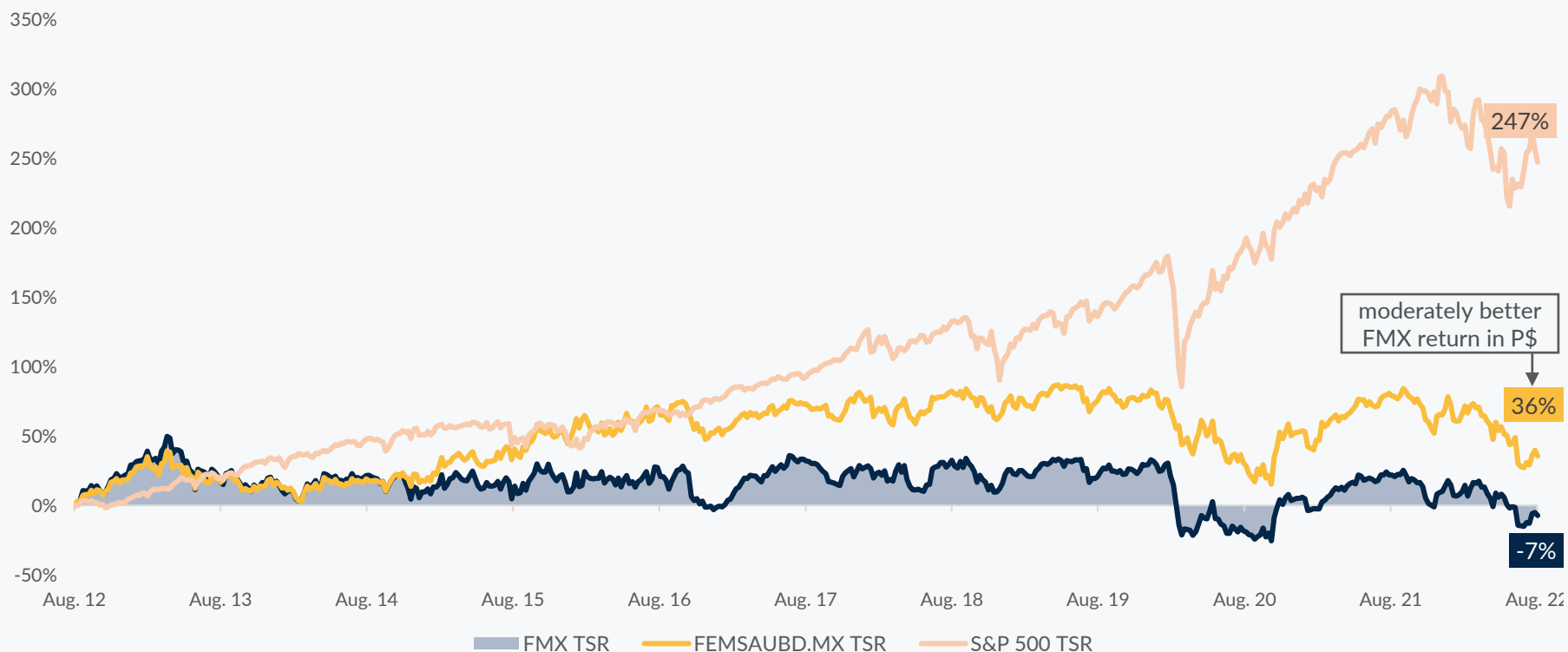
*for illustrative purposes only, the Heineken stake is equity accounted and not part of FMX's consolidated EBITDA number

**RETAIL EBITDA in FY21 includes ~\$0.2 bn EBITDA from the Logistics & Distribution business; Data Source: company filings

FMX SHARES WENT NOWHERE FOR 10 YEARS

While FMX grew EBITDA by +4% p. a. or +42% in total from FY12-21, the stock's P/E contracted by 40% (23x to 14x) leaving investors with an unsatisfactory TSR of (7%) compared to +247% for the S&P 500.

FMX TOTAL RETURN VS. S&P 500



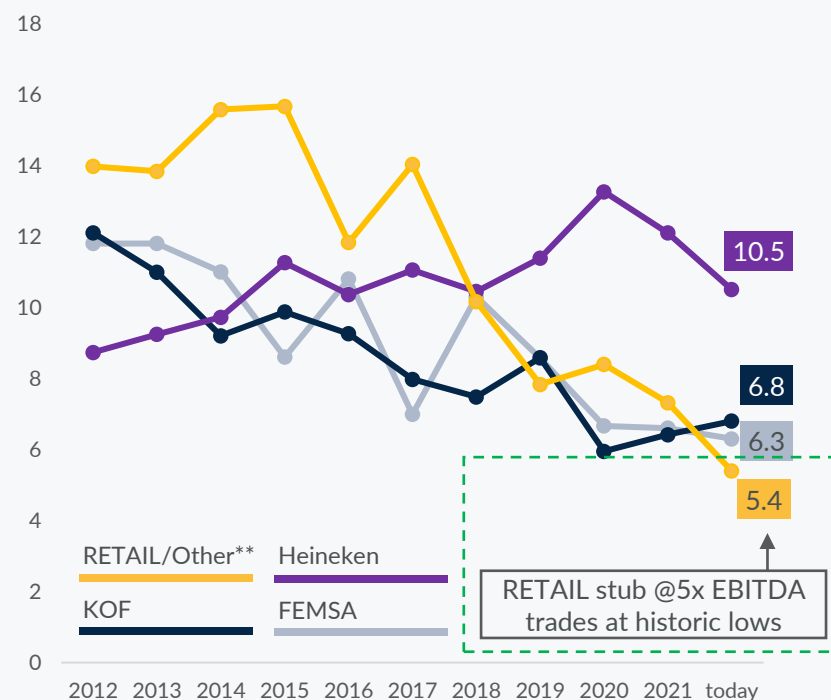
STOCK DECLINE IMPLIES LOWER SOTP VALUES

Share prices of both FMX/KOF underperformed their EBITDA development. As a corollary to this finding, FMX's parts derated to lower multiples. The RETAIL stub regularly traded around 14x EV/EBITDA in the past vs. 5.4x currently and WALMEX at 12.5x. HEIA is the only part with higher multiples over time.

FEMSA MARKET CAP COMPOSITION (\$M)

YEAR	FEMSA (I)	KOF STAKE (II)	HEINEKEN STAKE(III)	RETAIL EV* (IV)
2012	32,625	14,254	7,160	10,358
2013	32,476	11,852	7,589	12,219
2014	30,947	8,401	7,851	14,697
2015	32,358	7,056	9,492	15,298
2016	26,691	6,201	8,401	12,335
2017	31,298	6,910	8,680	16,216
2018	29,162	6,013	7,389	13,189
2019	31,847	6,017	8,711	15,577
2020	25,100	4,562	8,862	13,540
2021	25,719	5,404	8,846	15,721
08/22	23,069	6,215	7,118	11,545
Cap CAGR	(3.5%)	(8.2%)	+5.0%	+1.1%
EBITDA CAGR	+4.0%	(1.1%)	(0.6%)	+12.5%

FWD. EV/EBITDA MULTIPLES

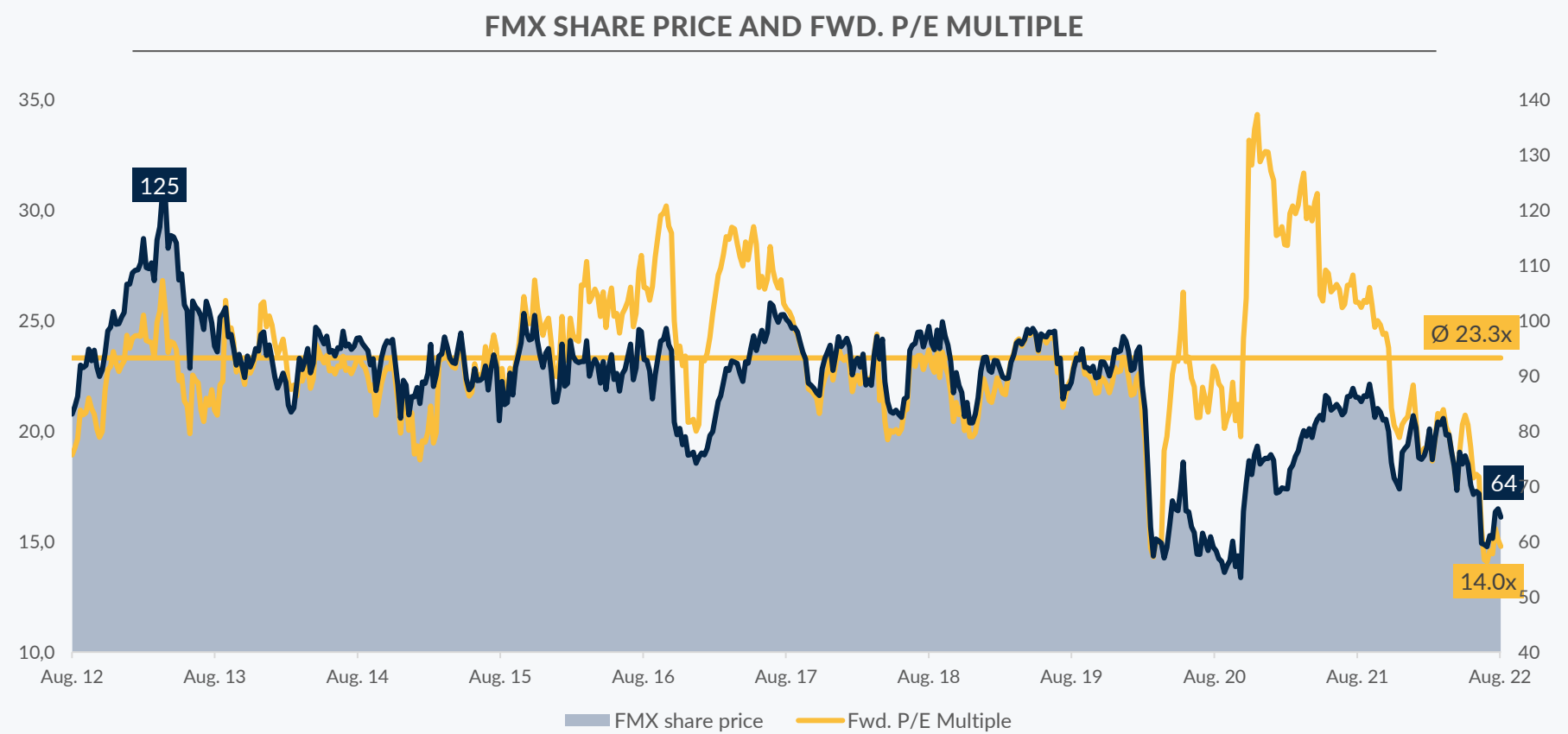


*implied Enterprise Value for RETAIL & Other = I - II - III + Holding Net Debt 10

**includes the EBITDA from the Logistics & Distribution division from FY21 onwards; Data Source: Refinitiv, company filings

FMX'S P/E MULTIPLE IS BELOW ITS HISTORIC AVERAGE

FMX currently trades at 6.3x EV/EBITDA_{23(e)} and 14.0x Net Profit_{23(e)}, below its historical average. Solely based on prior Fwd. Multiples FMX would trade near a bottom/top around \$55/\$110 per share.



INVESTMENT CASE HIGHLIGHTS

- With 20k+ owned OXXO stores, **FMX is the clear leader in convenience stores in Mexico**. OXXO is 10x the size of its nearest competitor 7-Eleven in its home country and the 2nd largest retailer after Walmart Mexico
- **OXXO serves 13m customers daily** and achieved SSS of +5% p. a. over the past 10 years. OXXO retains a 4% unit growth rate in Mexico (~1,000 net openings per year). In Brazil/Colombia/Chile it sees potential for 10k additional units, **setting the stage for a 2x of OXXO's total store base over the upcoming decade**
- OXXO achieves higher EBIT margins than Walmex (9.3% vs. 8.5% in FY21), grows faster (rev CAGR15-21: 8.8% vs. 6.9%) and yet **FMX RETAIL stub trades at a significant discount vs. Walmex (5.4x Fwd. EV/EBITDA vs. 12.5x), leaving room for a potential rerating of FMX's largest value contributor**
- Besides RETAIL, FMX owns stakes in two mature beverage companies that generate stable amounts of FCF and fund the company's dividends. Especially the 14.8% stake in Heineken (worth ~\$7 bn) is a non-strategic asset and could one day be tapped as a source to fund higher growth avenues (**which can be an opportunity but also a risk for owners, since FMX's M&A activities lately raised questions on price discipline**)
- One reason for the company's lackluster stock performance is that market participants overpaid for KOF big-time. **KOF has fallen to more reasonable levels lately, increasing the odds that future FMX performance may look better than past performance** as earnings growth might once again translate into positive returns

EXECUTIVE SUMMARY

If you enjoyed this presentation so far



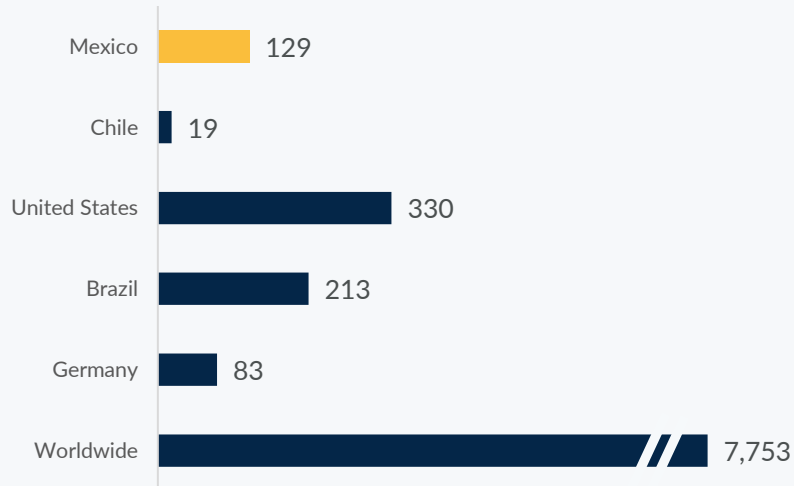
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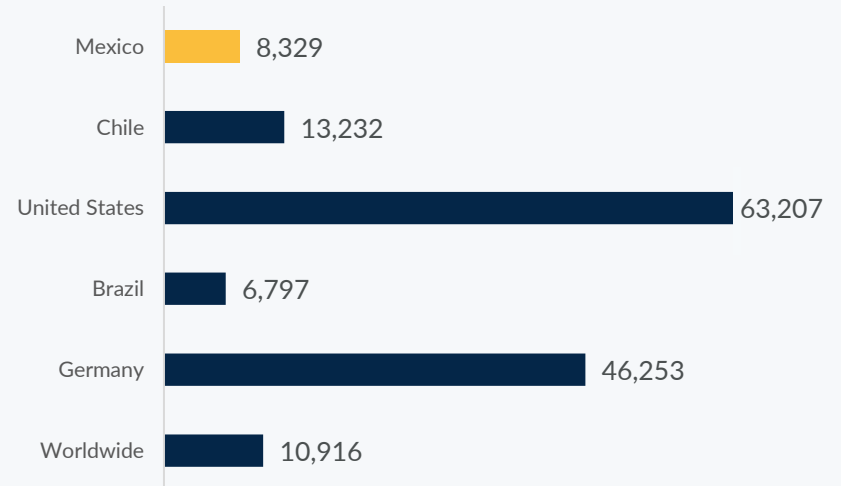
SOME BASIC FACTS ABOUT MEXICO

Mexico is the world's 15th largest economy with 129m inhabitants, a GDP per capita ~1/7 the level of the U.S. and average annual inflation of +4% p. a. over the past 10Y. Median age is 29 years (U.S.: 39 years).

Population
(2020, in m)

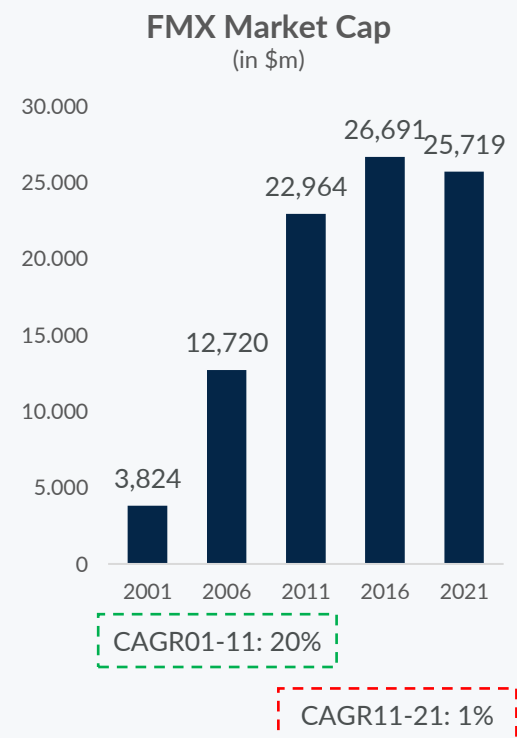
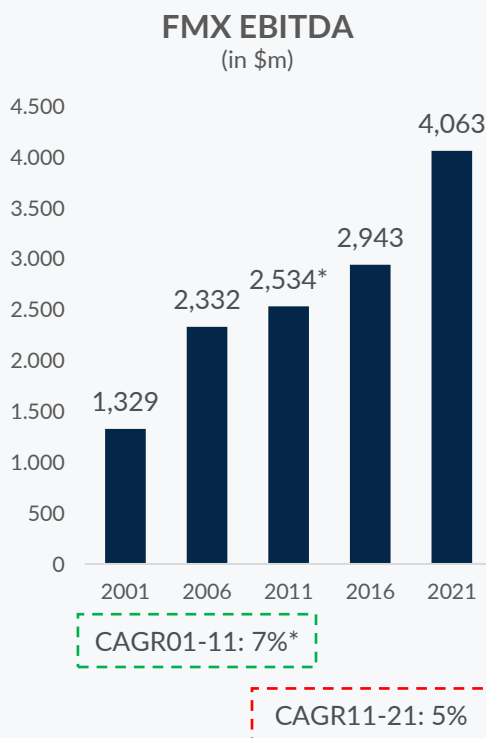
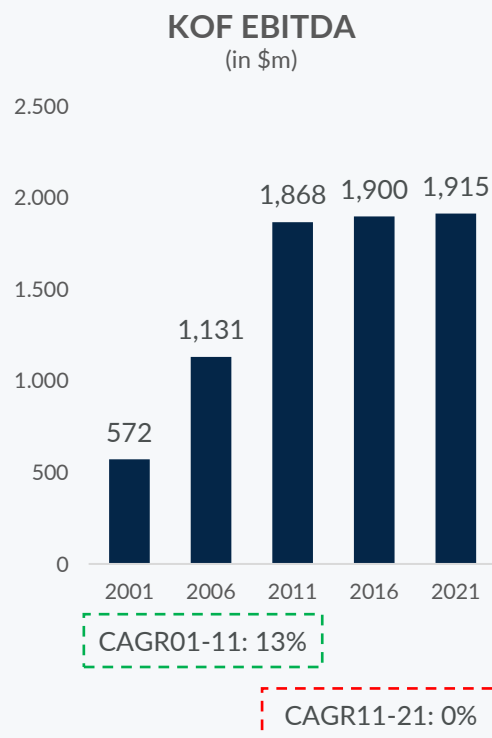


GDP per Capita
(2020, in \$)



FMX GREW TO A MEXICAN BLUE CHIP OVER 20 YEARS

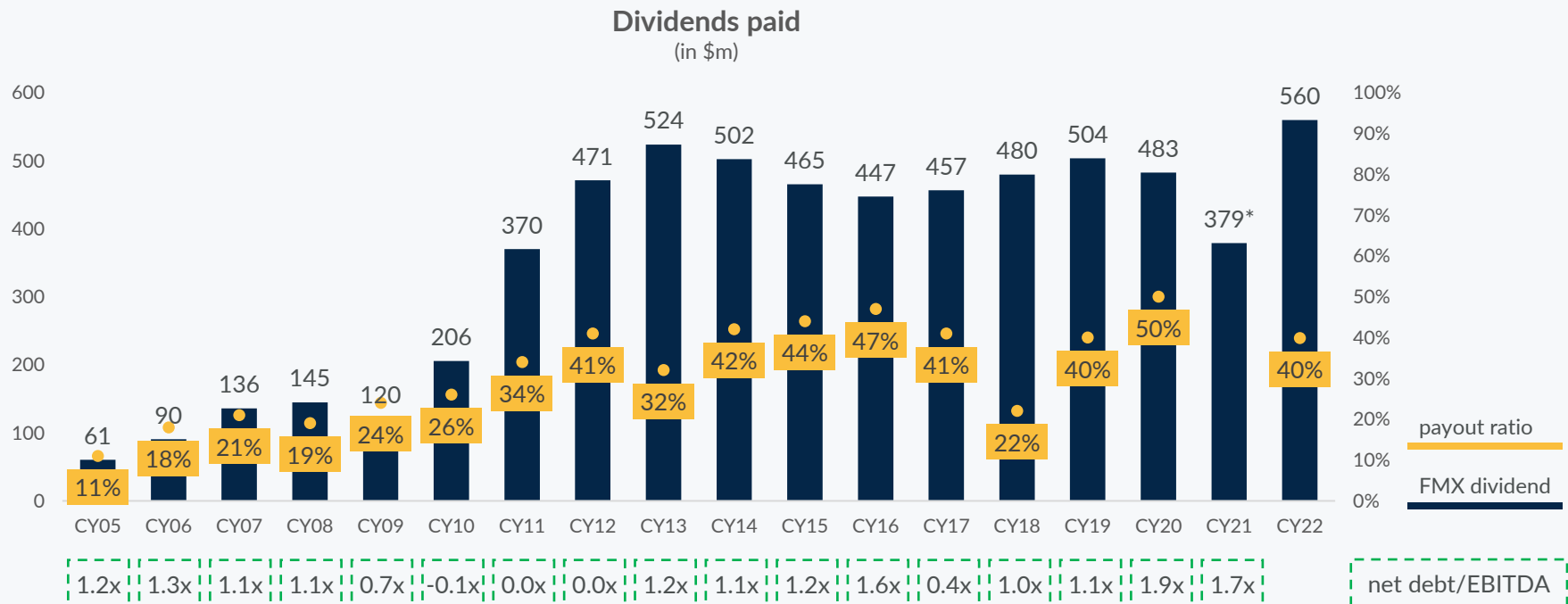
Two decades ago, FMX was a smaller, high-growth stock delivering strong profit increases and 20% market cap CAGR until 2011/12. During that time, the company advertised its ability to generate double-digit returns, which subsequently stalled due to KOF/HEIA stagnation and FX headwinds.



*FMX deconsolidated a large part of its group EBITDA in 2010, by selling its brewery to Heineken. EBITDA CAGR would have been 15%+ otherwise; Source: company filings 15

FMX IS SOLIDLY FINANCED, BUYBACKS ARE A BLINDSPOT

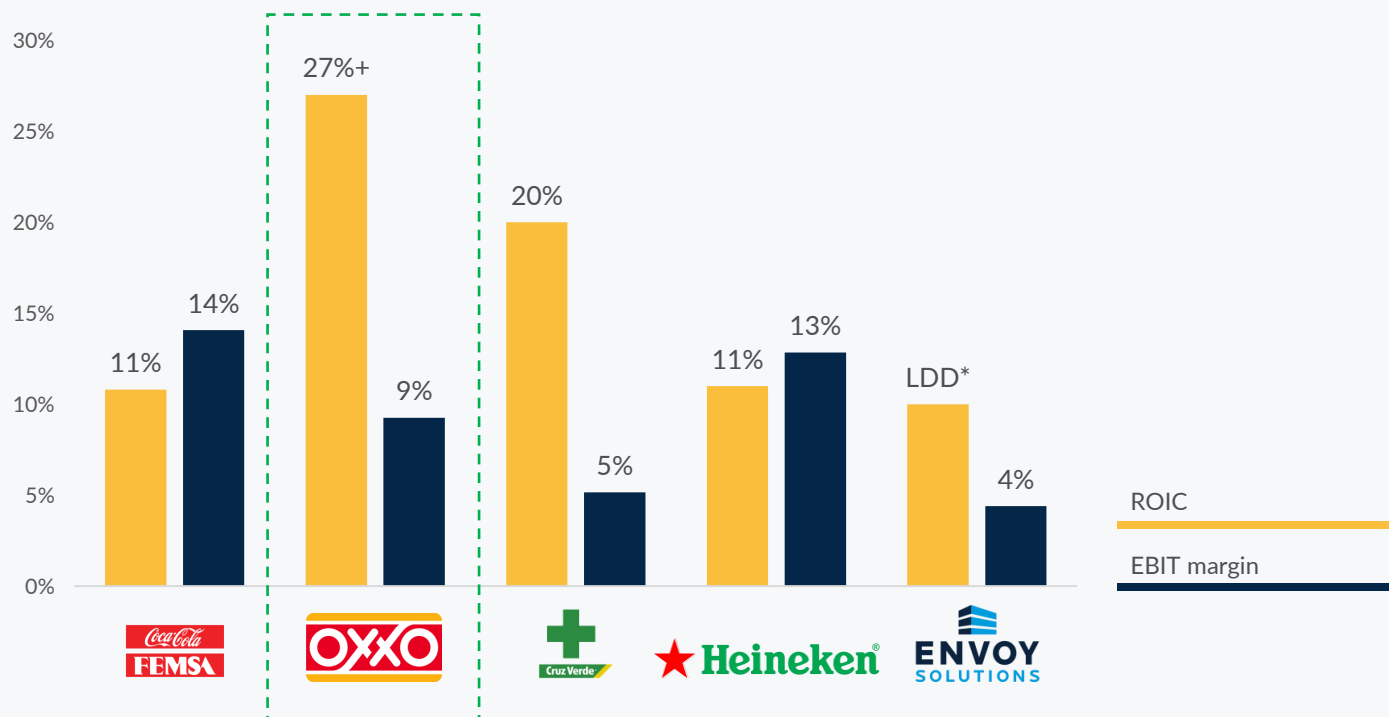
FMX used to only pay a small dividend. When it matured, the payout ratio advanced to ~40%. FMX historically eschews buybacks irrespective of where the stock is trading – a policy I *strongly* disagree with.



CAPITAL ALLOCATED TO OXXO ADDS THE MOST VALUE

KOF/HEIA margins are better than OXXO's, but ROIC at the latter is far superior. FMX's capital allocation priorities should be 1) exhaust OXXO's unit potential in LatAm over next decade+, 2) increase drugstore footprint, 3) spin-off HEIA stake if management can't find any bargain redeployment opportunities.

ROIC AND EBIT MARGIN BY BUSINESS UNIT (IN %)



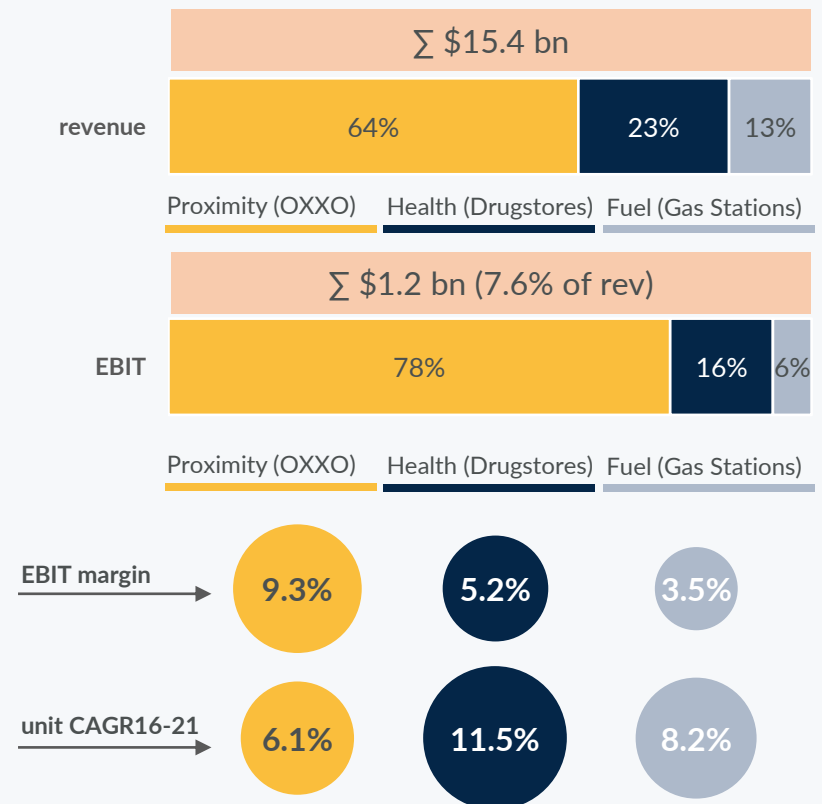
*financial disclosure for the U.S. acquisitions in Logistics & Distribution (Envoy Group) is not sufficient to calculate any exact numbers; Source: company filings, own estimates 17

RETAIL CONTRIBUTES 38% TO FMX'S ECONOMIC VALUE

FMX RETAIL primarily includes OXXO c-stores and gas stations but also 3.6k smaller-sized pharmacies in LatAm. RETAIL generated revenue/EBIT/EBT/NI of \$15.4/\$1.2/\$0.7/\$0.5 bn in FY21, contributing the lion's share of 38% to FMX's \$1.2 bn controlling interest net profit. OXXO drives 78% of RETAIL EBIT.

- As of FY21, FMX operated **20,121 OXXO stores in Mexico and 300+ internationally**. Outside Mexico, Colombia (133), Chile (122) and Brazil (73) are the largest markets. Especially **Brazil is ramping up rapidly (250-300 new store openings planned in FY22)***
- Besides the Proximity Division, FMX runs 3.6k small pharmacies (1.4k domestic, 2.2k intl.). FMX operates under the **YZA, Farmacon and Moderna banner in Mexico, Cruz Verde and Maicao in Colombia/Chile as well as Fybeca and SanaSana in Ecuador**. Cruz Verde is the most important cash cow and market leader in Chile. Historically, Health division achieved double the unit CAGR of Proximity (11.5% vs. 6.1%, see on the right)
- FMX also runs 567 gas stations as of FY21, often co-located with OXXO c-stores. **The fuel division is mostly irrelevant and suffers from regulatory hurdles** when it comes to potential unit growth

FEMSA RETAIL BREAKDOWN



THERE ARE 20K OXXO STORES IN MEXICO

As of FY21, FMX operated 20,121 OXXO c-stores in Mexico (98% of total store count). Net openings came in at 865 units (4% unit growth after +1%/+7%/+9%/+9% in FY20/19/18/17). The domestic store density (20k stores, 129m population) is comparable to 7-Eleven in Japan (21k stores, 126m population).

- In the economically stronger North of Mexico, there's an OXXO for every 3,700 people vs. 8,300/10,100 in SW/SE. Adjusted for ~20% lower GDP/capita in the South, OXXO could reach a penetration of 4,600 people/store in the South and open 9,700+ additional units. Due to COVID-19, OXXO closed more stores in FY21 than usual (446 permanent closures). **Gross opening capacity remains >1,000 stores in Mexico** (1,311 gross in FY21 vs. 865 net). Also, the highly penetrated North shows no signs of slowing down (47% of net new openings in FY21). **OXXO targets 30k stores in Mexico by 2031 for a 4% unit CAGR**

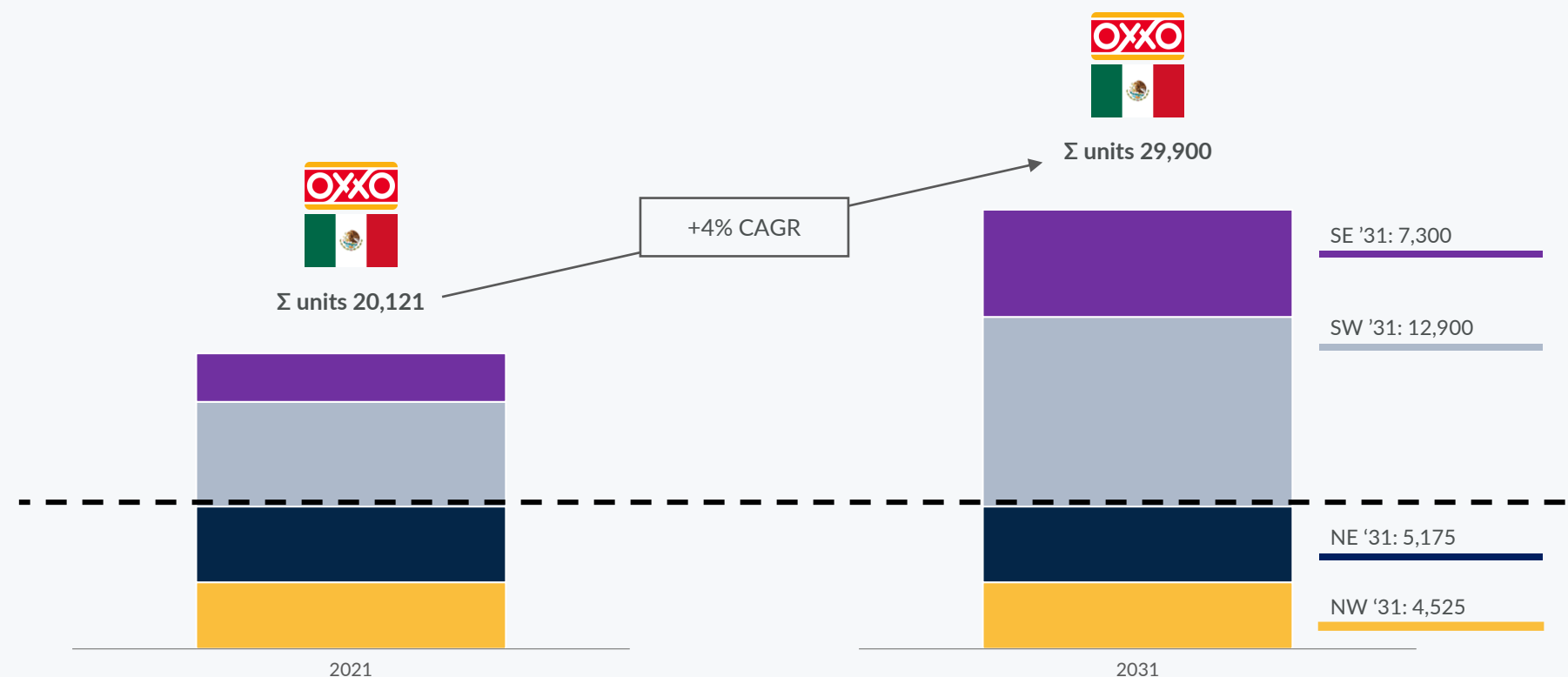
OXXO STORES	#	%	POP UL. %	DENSITY (PPL/ STORE)	POTENTIAL	
Northwest	4,525	22%	13%	3,700	4,525	+0%
Northeast	5,175	26%	15%	3,700	5,175	
Central/Southwest	7,112	35%	46%	8,300	12,900	+80%
Southeast	3,309	16%	26%	10,100	7,300	+120%
Total	20,121	100%	100%	6,400	29,900	+50%

OXXO FOOTPRINT FY21



THE WAY TO A 1.5X IN MEXICO TO 30K OXXO STORES

OXXO's real estate division is responsible for identifying ideal locations and plans expansion based on store densities per region. FMX management wants to increase units in Mexico to 30k over 10 years.



THE WAY TO A 2.0X GLOBALLY TO 40K OXXO STORES







Besides its 30k units goal in Mexico (+50%), management sees potential for an additional 10k international units in markets like Colombia, Chile, Peru and Brazil for a total of 40k stores (+100%).

- Outside Mexico, OXXO so far operates 133/122/55 c-stores in Colombia/Chile/Peru. The LatAm rollout has seen mixed success so far. However, **Brazil is currently picking up steam and should contribute significantly to a meaningful store footprint outside Mexico over time.** [Grupo Nós](#) (the 50/50 JV between FXM and Raízen, the latter itself being a 50/50 JV between Cosan and Royal Dutch Shell) opened its **first OXXO store in Brazil in November 2020** and is already planning 250-300 net new openings in FY22
- Raízen has a network of 1,162 franchised Shell Select Stores at gas stations, making it the **#3 c-store chain in Brazil. #1 is AM/PM (2,500+ units) and #2 is BR Mania (1,300+ units).** When Brazilians think of c-stores, they think mostly of stores at gas stations, not corner stores. 8k out of the 14k+ countrywide c-stores are at gas stations, which is why **the leading c-store chains in the country are linked to major fuel brands like AM/PM (Ipiranga), BR Mania (Petrobras) or Raízen's Shell Select Stores (Royal Dutch Shell)**
- Different from Mexico, the padaria (bakery) offering inside c-stores is very important for local customers. AM/PM is the country's largest bakery chain and Grupo Nós had to adjust its bread offering when entering the market (unlike in Mexico, OXXO sells fresh-baked bread in Brazil and has a heightened focus on food service with a variety of sandwiches, pizzas, pastries and ready-to-eat meals). **Brazil's entire c-store sector has significant growth potential as density (15k people per store) is ~85% lower than in the U.S. (2k people per store) and ~70% lower than in Mexico (5k people per store).** Local operators estimate that only 20% of all Brazilian fuel stations are equipped with a c-store*

*for example: Petrobras has roughly 8k gas stations in Brazil vs. a total of 1.3k BR Mania c-stores, Shell has ~6k gas stations vs. a total of 1.2k Shell Select c-stores 21

LATAM IS OFTEN UNDERPENETRATED WITH C-STORES

If LatAm markets reach Mexican penetration levels of 5k people/c-store, the region could add 25k OXXOs

	POPULATION	MOM & POP STORES	FORMAL C-STORES	PEOPLE PER C-STORE	TOTAL # OF OXXOS	OXXO MARKET SHARE	MARKET POTENTIAL @5K PEOPLE/STORE	ADDITIONAL OXXOS @30% MS
 Mexico	129m	~1m	24k	5k	20,121	85%	36k*	10k*
 Brazil	213m	0.5m	14k	15k	73	1%	43k	9k
 Columbia	51m	0.3m	1k	42k	133	10%	10k	3k
 Chile	19m	0.1m	1k	20k	122	10%	4k	1k
 Peru	33m	0.3m	1k	33k	55	5%	7k	2k
Total	463m	2.2m	41k	11k	20,504	50%	100k (2.5x)	25k (2.25x)

underpenetrated

*Mexico is already at a penetration level of 5k people per formal c-store. The growth potential of 10k additional OXXOs is based on FMX's guidance and own estimates 22

BRAZIL MIGHT EMERGE AS OXXO'S NEW STRONGHOLD

“THE FACT THAT WE ALREADY OPENED OUR 100TH OXXO STORE BASICALLY A YEAR, OR A LITTLE OVER A YEAR AFTER THE FIRST OXXO WAS OPEN IN CAMPINAS, IF YOU JUST LOOK AT OVERALL OXXO INTERNATIONAL, YOU'RE LOOKING AT CHILE AND COLOMBIA, WHICH TOGETHER SHOULD CONTRIBUTE ANYWHERE BETWEEN 150, 180 STORES PER YEAR RIGHT NOW. AND THEN YOU HAVE BRAZIL, WHICH YES, IT'S A JOINT VENTURE SO I GUESS YOU CAN SAY WE ONLY GET CREDIT FOR HALF OF THOSE, BUT THEY HAVE A PLAN FOR MORE THAN 200 THIS YEAR. **SO ALREADY YOU'RE LOOKING AT A SCENARIO WHERE OUTSIDE OF MEXICO, YOU'RE GOING TO ADD SOMETHING LIKE 400 STORES, PLUS THE 800 IN MEXICO. AND THOSE CURVES ARE GOING TO CONTINUE TO CONVERT, RIGHT?** NOT BECAUSE MEXICO'S – I DON'T THINK WE'RE GOING TO BE OPENING FEWER STORES IN MEXICO, BUT I DO THINK WE'RE GOING TO BE OPENING A LOT MORE STORES IN SOUTH AMERICA. **SO, IN A 5-YEAR TIMEFRAME, I THINK IT'S DEFINITELY POSSIBLE THAT INTERNATIONAL WOULD BE ADDING AN EQUIVALENT NUMBER OF STORES AS MEXICO.**”

– JUAN FONSECA (VP IR), Q4/21 EARNINGS CALL

“IF YOU COMPARE THE POPULATION OF BRAZIL WITH MEXICO, DEFINITELY THERE IS ROOM TO GROW. I MEAN IN THE LONG TERM **WE SHOULD NOT EXPECT THAT THE NUMBER COULD BE VERY DIFFERENT FROM WHAT WE HAVE SEEN HERE IN MEXICO.**”

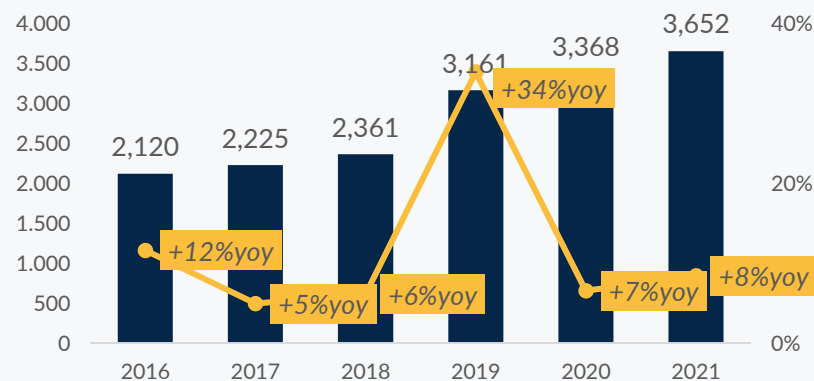
– DANIEL ALBERTO RODRÍGUEZ COFRÉ (CEO), Q2/22 EARNINGS CALL

BESIDES C-STORES, FMX RETAIL RUNS 4K DRUGSTORES

OXXO represents 78% of FMX RETAIL EBIT, Drugstores 16% (7% of FMX total). The Health Division is the largest drugstore operator in LatAm with 3,700+ stores and generated rev/EBIT of \$3.6/\$0.2 bn in FY21.

- FMX entered the drugstore business 2013 by acquiring 2 regional chains, namely Farmacias FM Moderna (leader in Sinaloa) and Farmacias YZA (leader in the Southeast region). In 2015, it added Farmacon (Sonora, Baja California) to the group
- In FY21, Health had 1,428 drugstores in Mexico (3%/4% rev/unit share, 37k units industrywide). Farmacias Guadalajara (Super Farmacia) is #1 with 23%/6% rev/unit share.* Health Division's cash cow is Cruz Verde (acquired via Grupo Socofar in 2015), the clear market leader in Chile with 30% market share and above average margins. FMX has experimented with introducing wellness and beauty products more recently
- Sharing best practices from Chile with other markets in addition to a larger store count should help to reduce the margin gap vs. Cruz Verde. Health is also a segment where larger M&A (in Mexico) could be value accretive

Health Division Store Count



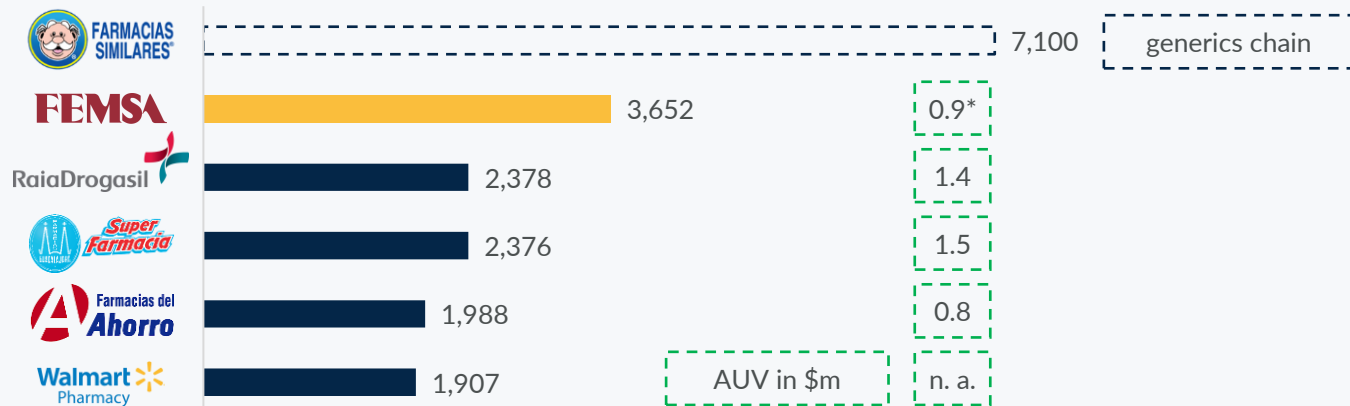
*If one would include generic drugs, one of the country's largest drug manufacturers Farmacias Similares has >7k retail outlets in Mexico and 22% rev share; Source: company filings 24

DOMESTIC INDUSTRY IS FRAGMENTED, ROOM FOR M&A

FMX generates enough FCF (\$1.3 bn) to fund organic growth, pay dividends of ~\$0.6 bn and have \$0.7 bn left to fund occasional larger acquisitions. While near-term M&A is most likely to happen in the U.S. through Envoy and Europe through Valora, acquiring a competing LatAm health chain could add value.

- The competitive situation in Mexican drugstores is fragmented and intense. **Should Farmacias Guadalajara or Farmacias del Ahorro come up for sale (no indications yet), large scale M&A could be value accretive due to more purchasing clout.** Farmacias Guadalajara is the market leader with a 6% unit share, but since it runs larger stores than FMX (+400 sqm vs. 108/178 for FMX in Mexico/Chile) its market share by revenue (23%) is much more pronounced than its unit share. Farmacias del Ahorro with a store size of ~120 sqm is comparable to FMX and has a similar product offering. If one includes generic drugs, Mexico's largest chain is not FG but Similares with >7,000 stores under a franchising model vs. FMX owning its stores

STORE COUNT OF COMPARABLE DRUGSTORE CHAINS IN LATAM



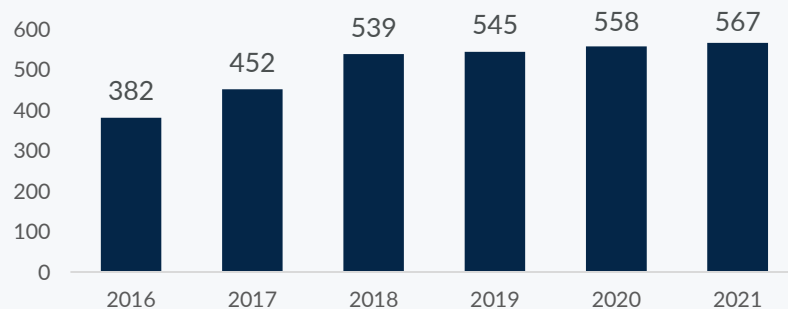
*0.3 in Mexico; Source: company filings 25

OXXO GAS STATIONS ARE IRRELEVANT FOR THE CASE

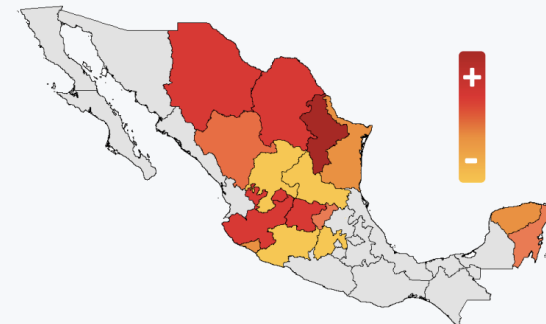
After the 2016 liberalization of the fuel market in Mexico, FEMSA launched OXXO Gas. As of FY21, the division had 567 stations (mainly in Northern Mexico) and achieved sales of \$2.0 bn and an EBIT of \$70m.

- Before the energy reform, PEMEX had a monopoly in gas stations in Mexico and operated ~10k stations. Many franchised PEMEX stations today run under new banners, bringing the number of PEMEX branded stations down to 7k for a unit share of 50% vs. 4% for OXXO Gas (there are 13k stations nationwide)
- Gas stations are a low-income business (the ultimate commodity). Even scaled players often operate only around break-even. **The only good thing is that – besides some underground tanks – Capex for stations is low** and ROIC can be double-digit (brokers estimate 20% ROIC for OXXO Gas). The division has a \$18m Capex budget (1% of sales) in FY22, which highlights the low requirements. Unit growth has slowed due to CRE granting fewer permits. There are still 2,500+ OXXOs next to gas stations which are not branded OXXO Gas. With less political resistance, FMX may want to unify the brand messages at a later point in time

OXXO GAS STATION COUNT FY16-21



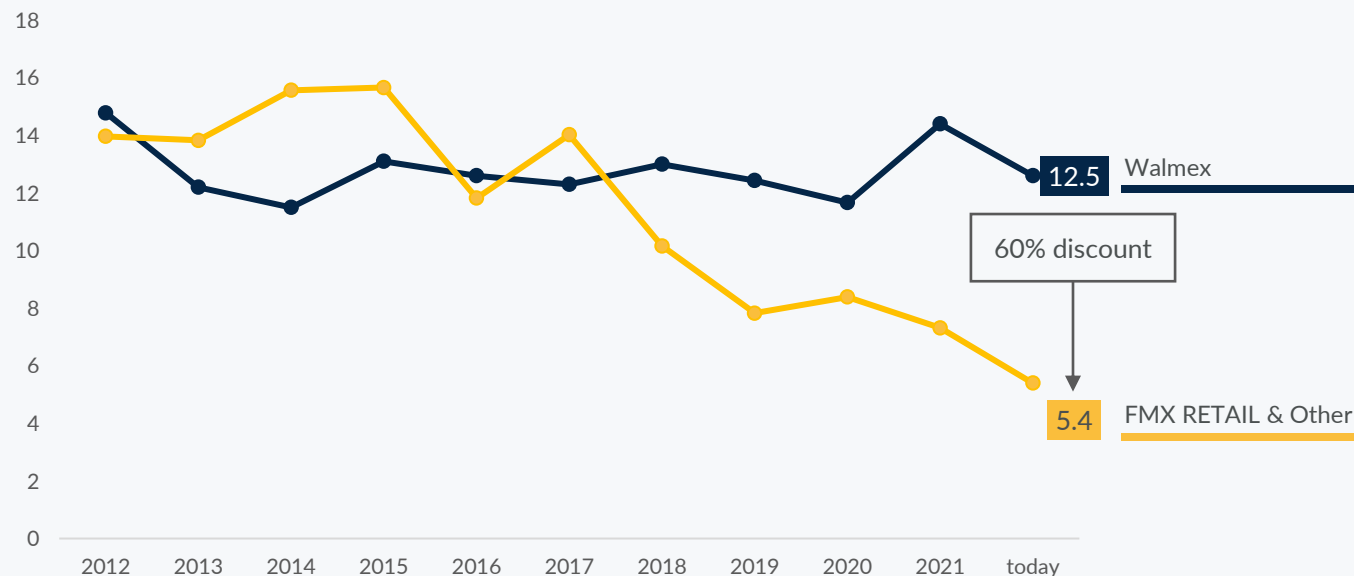
OXXO GAS FOOTPRINT FY21



FMX RETAIL SHOWS A LARGE VALUATION GAP VS. PEER

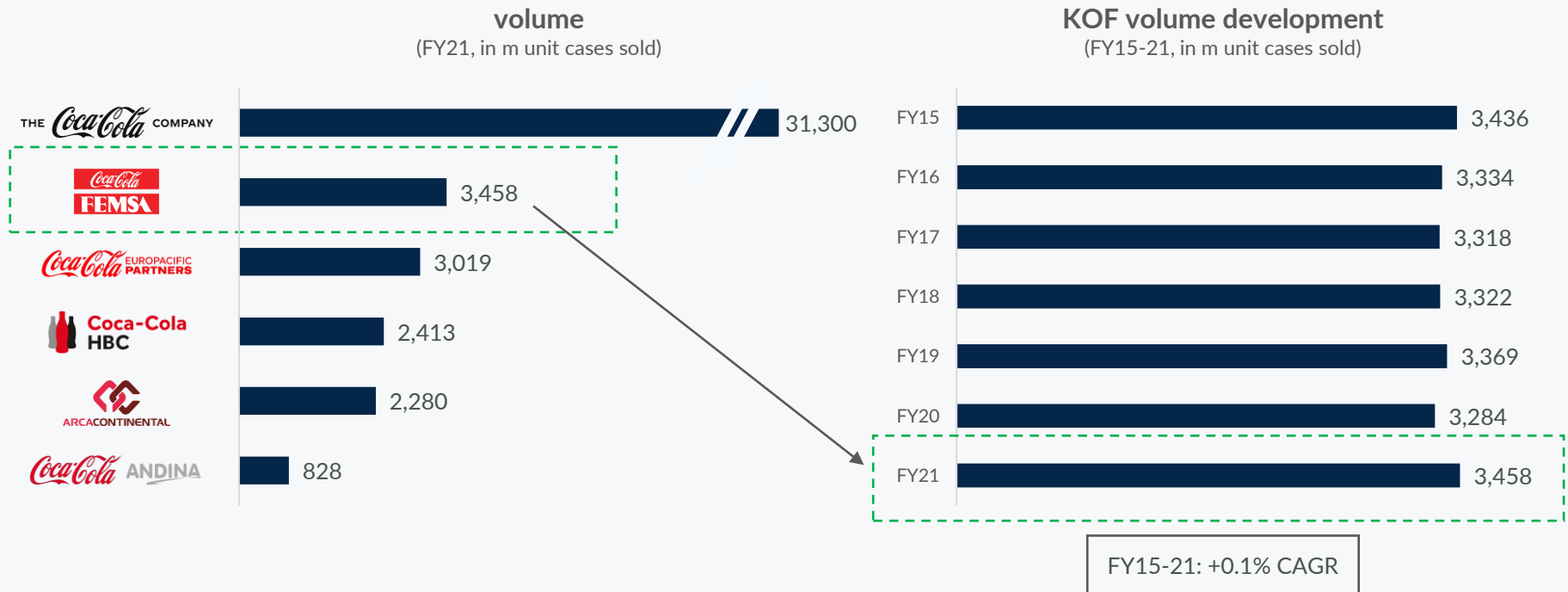
The valuation for FEMSA's RETAIL stub has come down significantly this year given the underperformance of FMX total (ytd: -17%) vs. KOF (ytd: 14%) and HEIA (ytd: -8%). It now trades at 60% discount to Walmex

FWD. EV/EBITDA



BESIDES RETAIL, FMX HAS EQUITY STAKES IN KOF/HEIA

KOF is the largest Coca-Cola bottler by volume but achieves virtually no more growth except for the COVID catch up this year. It generates a stable ~\$0.8 bn in net income of which FMX claims 47.2% or \$0.4 bn. KOF makes up 30% of FMX controlling interest net profit, RETAIL 38%, HEIA 29% and L&D 3%.



FMX'S 14.8% HEINEKEN STAKE IS WORTH ~\$7 BN

FEMSA started as a brewer but sold its Cervecería Cuauhtémoc Moctezuma to Heineken in exchange for a 20% stake in the group in 2010, sold down partially to 14.8% in 2017. The ~\$7 bn stake is held at-equity.

- In 2008, 3G led InBev's hostile takeover of Anheuser-Busch to form the largest brewery group in the world (ABI). FMX immediately took notice. The Mexican beer market is a long-lasting duopoly between Grupo Modelo and Cervecería Cuauhtémoc Moctezuma. With Modelo soon to be acquired by ABI, **FMX knew that it was lacking scale in case a marketing fight in its home market would erupt**
- As a defensive move, FMX sold its historical core business to Heineken, the most international brewer, in exchange for a 20% stake. **The agreement implied an equity value for FMX's beer business of €3.8 bn (\$5.5 bn) at closing.** FMX thereby became Heineken's largest shareholder holding 43,018,320 shares of Heineken Holding N.V. and 72,182,203 shares of Heineken N.V. until 2017. **In September 2017, FMX reduced its equity stake from 20% to 14.8% for a net receipt of €2.5 bn (\$3.0 bn) and currently holds 35,318,320 shares of Heineken Holding N.V. and 49,697,203 shares of Heineken N.V. for a market value of ~\$7 bn**



most important products of Heineken Mexico

MEXICAN BEER AND COKE MARKETS ARE SATURATED

In FY21, Heineken/Anheuser-Busch InBev generated rev of \$25.9/\$54.3 bn and EBITDA of \$5.9/\$19.2 bn for a margin of 23%/35%. They sold 231m/582m hectoliters of beer for a volume CAGR of 1.5%/(1.3%) from FY17-21. Inconveniently, the two largest global brewers aren't high growth companies anymore.*

- Annual beer consumption per capita is 63 liters in Mexico vs. 70/92/63 in the US/Germany/global average. Contrary to some market commentary, **Mexico is not an underpenetrated market and virtually the entire domestic alcoholic beverage market is beer** (95% volume share vs. wine/spirits only representing LSD)
- ABI via Grupo Modelo has ~50% market share in Mexico and sells the country's favorite brand Corona. Heineken Mexico is #2 with 40% market share (largest brand: Tecate). OXXO and Heineken had an exclusive distribution partnership until 2020, after which OXXO started selling both brand portfolios (the nationwide rollout will be completed until the end of 2022). **Given the importance of the beer category for OXXO (15% of sales) and the higher popularity of Modelo's brands in Central and Southern Mexico**, the assortment change bodes well for future expansion plans in OXXO's home market
- In my opinion, the end of exclusive distribution symbolizes a less and less strategic relationship between FMX and Heineken. **Holding on to the stake also carries opportunity costs, as OXXO is not allowed to open c-stores in the U.S. while it owns parts of Heineken.** Heineken is a store of value for FMX and contributes to its dividend payouts. FMX will pay out a cash dividend of \$560m for FY21 (a 50% payout ratio relative to \$1.2 bn NI) for a yield of 2.6%. **On a net basis**, FMX received ~\$250m in dividends from Heineken during CY21 or 45% of FMX's total planned dividend payout.** After a potential sale of Heineken, FMX could still afford a \$560m dividend, however the payout ratio would need to climb to ~60%
- A sale of the stake triggers capital gains taxes of >\$1 bn. Also, a spin-off cannot be achieved tax-free

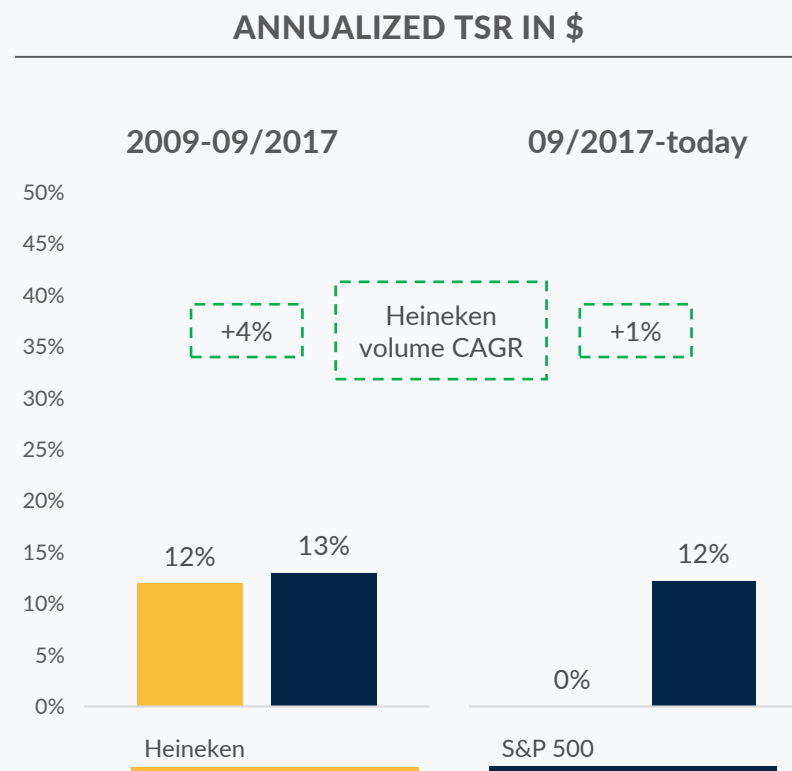
*Heineken recently published a midterm target of mid- to high-single digit organic operating profit growth at best 30

**dividends received from Heineken are subject to a 15% dutch withholding tax and 30% income tax in Mexico when received

HOW MUCH \$\$\$ DID FMX MAKE FROM ITS HEIA STAKE?

From end of 2009 to 2017, Heineken delivered a TSR of 12% p. a. vs. 13% for the S&P 500 – an adequate double-digit return on investment. Ever since Heineken didn't grow volume anymore, results were paltry.

- FMX sold 5.2% of Heineken in 2017 bringing its remaining interest to 14.8%. FMX received the stake in 2010. From the end of 2009 to 09/2017, HEIA generated appropriate returns for an equity investment with a relatively low risk profile
- However, since 2017 Heineken couldn't achieve past volume growth rates and returns were bad. I don't expect volumes to pick up meaningfully in the long run. Beer production is a mature industry with high penetration all over the world
- If FMX could have sold the entire stake in CY17 and reinvested into the S&P 500, shareholders would have fared better. If HEIA's only a financial asset, **management needs to start benchmarking it more rigorously vs. other equity alternatives**
- Heineken trades around 20x NI, which doesn't appear particularly cheap given the saturation of many markets. **If FMX can't find double-digit IRR reinvestment opportunities, there's only one right thing to do: spin-off HEIA to shareholders!**



I/II HEINEKEN STAKE: WHAT IS MANAGEMENT'S PLAN?

As I just stated, in my opinion HEIA should be swapped against investments with higher IRR(e) or be spun-off. Having KOF and OXXO under one roof makes more sense to me for leverage against Coca-Cola.

- After FMX reduced its HEIA stake in 2017, management acknowledged that it's no longer a strategic investment: *"Well, the Heineken shares [...] it's a temporary investment. We just have to find a way to deploy that capital in a better way. And it is as not as optimal as it was in the past, as you are referring. But we just have to find the right time and the right path to deploy that capital and have that use of those proceeds."* – Miguel Eduardo Padilla Silva, Q2/20 Earnings Call
- OXXO had a long-stated goal to enter the U.S. Currently there are only two test-stores in Texas since U.S. law prevents retailers from owning brewing companies. As long as FMX owns HEIA, it can't start an U.S. expansion. **However, recently management deemphasized its urge to enter the U.S., which might also just imply that the potential is no longer as big as it used to be** because 7-Eleven, Circle K (rebranded CST stores) and Stripes have established sizeable local store footprints in the meantime: *"So we continue to actively monitor convenience formats and proximity formats throughout the world, including the U.S. We are aware, of course, of the restriction that the Heineken stake brings us there. But having said that, as you well mentioned, I mean some of the assets there we'll have to evaluate on a one-by-one basis and see what the opportunity cost of having one asset versus the other is. And if opportunities come along that warrant it, we'll take a look at them. But again, there are plenty of opportunities, I think, still outside of the U.S., including in our regions and in regions, we're not currently in that at least would allow us with our current business model to create value. So we'll look at any and all. But again, always looking at it from just a relative risk/reward perspective in our portfolio. So for now, that hasn't materialized, but we continue to actively monitor all situations."* – Eugenio Garza y Garza, Q1/22 Earnings Call

II/II HEINEKEN STAKE: WHAT IS MANAGEMENT'S PLAN?

Management plans to allocate capital to 1) Envoy and to 2) a potential c-store consolidation in Europe through Swiss based “foodvenience” chain Valora. While the latter objective appears to be right in the company's circle of competence, prices paid for Envoy Solutions and Valora raise some more questions.

- In the Logistics & Distribution business (Envoy), **FMX talks about low DD achievable returns relative to total purchase consideration paid.** Given limited disclosure on the economics of the acquired businesses, it is currently neither verifiable nor falsifiable if these returns are realistic. Based on management commentary, Envoy recently surpassed LDD returns in the US, **which is not overly exciting for a rollup strategy of low-quality assets and objectively less attractive than 27%+ ROIC for new OXXO openings**
- After establishing the Envoy platform by paying 900m+ for WAXIE and North American, it's clear that FMX can easily throw a lot of money at this division. The HEIA stake is good for an extra \$6 bn in firepower (post capital gains taxes). **In my opinion, the purchase price logic behind upcoming add-ons to Envoy or Valora needs to be rigorously scrutinized as I view overpaying for acquisitions as the biggest risk(!) for FMX shareholders***“We are as pragmatic on our Heineken stake as we are with any of our other assets. I mean we continue to have internal targets for returns and valuation for each one of our assets. And we see Heineken at the current stage, and we are very happy shareholders. And again, we understand that with the tax situation that we're now facing going forward with the dividend, the hurdle for that return has gotten higher from our perspective, but we still believe that at that current levels and the current prices, the performance of the shares in our portfolio and with the mix of our portfolio is a good way not only to continue to deliver growth, but store value. But I think more importantly, if you look at the verticals where we are right now, Carlos, I mean, that's pretty much it. I mean we – our fourth platform is now specialized distribution into the U.S., whether it be Jan-San or food. We see very attractive capital deployment opportunities in the double-digit range for add-ons in both segments going forward, so we believe that we have a portfolio with a ton of optionality and [...] we will be able to eventually show you the numbers that we are seeing in there.”* – Eugenio Garza y Garza, Q3/20 Earnings Call

TWO BIG UNKNOWNNS FOR THIS CASE LONG TERM

The operating pathway for KOF/HEIA/RETAIL appears relatively clear, but there are two big unknowns.

potential
LT Impact



Long-term cash replacement opportunity in Mexico



Capital misallocation risk in case of lacking price discipline



PATH FOR THE OLD SEGMENTS APPEARS MORE CERTAIN

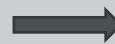
LT Growth Potential	Valuation vs. History	
HSD	16x NI (below 10 Yr. Avg.)	 FEMSA RETAIL <p>OXXO is the crown jewel in RETAIL, trades at large discount to Walmex, targets 10k more stores in Mexico and should double its global footprint to 40k stores over 10Y+</p>
LSD	15x NI (1 SD below 10 Yr. Avg.)	 FEMSA <p>10Y return of holding KOF shares has been a disaster, but due to significant derating, the stake poses less of a risk for FMX shareholders going forward, can grow a bit via pricing</p>
LSD	20x NI (at 10 Yr. Avg.)	 <p>The most international brewer is a stable cash cow but with limited volume growth given high penetration. If FMX cannot find better alternatives, I'd advocate for a spin-off</p>
MSD (consolidated)	14x NI (>2 SD below 10 Yr. Avg.)	 FEMSA <p>FMX needs to grow its RETAIL footprint, demonstrate convincing ROIC for non-LatAm M&A, acquire customers for SPIN and optimally revisit their stance on buybacks</p>

Source: own estimates and own visualization 35

DISCLAIMER: This presentation is for informational purposes only. It is **no investment advice** and **no financial analysis**.

COMPANY BACKGROUND

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A (NOT SO) SHORT HISTORY HOW FMX GOT HERE I/IV



Cuauhtémoc
Moctezuma



- **FEMSA has a >130 years long history and is Mexico's 4th largest listed corporation by market value** (after Walmex, America Movil and Grupo Mexico). Its roots go back to the founding of the brewery Cervecería Cuauhtémoc 1890 in Monterrey which over many decades transformed into today's conglomerate
- **Five entrepreneurs from five families: Francisco Sada Gómez, José A. Muguerza Crespo, Isaac Garza Garza, José Calderón Penilla and Joseph M. Schneider started the brewery with \$5k in capital, a workforce of 70 people and the Carta Blanca brand.** Today, the brewery has >16k employees and **descendants of the founding families control FEMSA to this day through a voting trust.** For most of its history, one family has provided the CEO who reported back to the other four families represented at the board level
- In the 1900s and again in the 1980s, FEMSA went through **a period of vertical integration, diversification, followed by a restructuring and refocusing of activities.** In the 1900s, Cervecería Cuauhtémoc established its own glassworks plant to supply bottles, a steel mill to supply crown caps, a malt production facility and a corrugated cardboard plant after the brewery replaced wood bottle crates with cartons
- During this period, **these operations were part of what was known as the Monterrey Group, which besides the core beer operations also included interests in a bank called Banca Serfin.** The bank grew into Mexico's third largest bank before the nationalization of all commercial banks happened during the peso devaluation in 1982. Another noteworthy acquisition was **the takeover of a small regional brewery in Tecate, Baja California in 1954.** The newly acquired brand "Tecate" was subsequently rolled out nationwide and today is Mexico's #2 beer by volume sold after Corona

A (NOT SO) SHORT HISTORY HOW FMX GOT HERE II/IV



- The 1970s and 80s turned out to be *hugely important* decades for FEMSA for the following reasons:
- **In the 1970s, the company prospered.** It was headed by José Calderón Muguerza (the son of co-founder José Calderón Penilla) and the two Garza Sada brothers Eugenio and Roberto (both MIT graduates and sons of co-founder Isaac Garza Garza). **In a tragic turn of events, Eugenio Garza Sada was killed 1973 in a kidnapping attempt by Mexican left-wing guerrillas** when his bodyguards put up resistance. Without Eugenio's unifying influence on the ever more complex Monterrey Group, **the company was split into two main units ALFA and VISA in 1974.** While ALFA received the steel and packaging operations, VISA retained the brewery and Banca Serfin. VISA became the predecessor of FEMSA. **Eugenio Garza Lagüera (son of the assassinated Eugenio Garza Sada) became Chairman of VISA and accompanied its IPO in 1978**
- The prosperous 1970s were followed by **the disastrous 1980s when the freshly IPOed VISA headed to a near death moment because of too much debt.** Inspired by Tom Peters' book „In search of Excellence“ VISA engaged in a spree of leveraged buyouts of dozens of unrelated businesses. By 1981, its interests had grown to include construction businesses, real estate, tourism, animal feed, canned food, plastics, flowers, quick service restaurants, cemeteries and fishing joint ventures besides its core beer and banking operations
- One noteworthy acquisition from that era is **VISA's acquisition of the Coca-Cola bottling operations in Mexico City and the Southeast region of Mexico for \$60m (a predecessor of KOF).** When oil prices began to fall in 1981, Mexico went into a steep recession and severe debt crisis. VISA found itself overlevered and was forced to sell off ~70 subsidiaries to pay down as much debt as fast as possible

A (NOT SO) SHORT HISTORY HOW FMX GOT HERE III/IV



VISA

FEMSA

- José Antonio Fernández Carbajal – step-son of former VISA Chairman Eugenio Garza Lagüera and current chairman of FEMSA after joining in 1988 – recounts an interesting episode how VISA tried to sell back the just recently acquired bottling operations to Coca-Cola. VISA was willing to sell for \$22m, willing to book a significant \$38m loss. **TCCC came back with an offer of only \$19m. FMX was offended and declined to sell. This turned out to be a profitable event since KOF became a solid performer until ~2010.** Besides being focused on divestitures, VISA also made one great acquisition in 1985 acquiring the Moctezuma brewery and merging it with Cuauhtémoc. This deal added Dos Equis, Superior and Sol to the brand portfolio of Carta Blanca, Tecate and Bohemia which resulted in 40%+ market share of the national market after closing
- **In 1986, VISA faced its near bankruptcy moment, when it couldn't service its debt anymore!** During the restructuring negotiations, VISA paid back its lenders an average of 30 cents on the dollar and swapped the rest of its debt into equity giving lenders a 20% stake of VISA's equity. The family shareholders at that time were – hardly surprising – in bad terms with each other and charged Eugenio Garza Lagüera with misconduct (unsuccessfully). **In the end, some family members sold back their shares to VISA and post-restructuring VISA rebranded as FEMSA from 1988 onwards**
- When the nationalized banks reprivatized in the 1990s, **FMX took a 34% stake in Bancomer, Mexico's then second largest bank which later merged with Spain's BBVA to form Mexico's #1 bank** with 20% market share. Eugenio Garza Lagüera became Bancomer's chairman. The shares of BBVA Bancomer were later distributed to FMX's shareholders. In 1993, FMX sold a 30% strategic interest in Coca-Cola FEMSA to a subsidiary of TCCC and floated 20% of KOF's stock on the Mexican and New York Stock Exchange

A (NOT SO) SHORT HISTORY HOW FMX GOT HERE IV/IV



- In 1995, José Antonio Fernández Carbajal (nickname “El Diablo”) became CEO of FEMSA. He stepped down in 2014 and today serves as the company’s chairman. Under his leadership KOF acquired new Coke territories especially through the 2003 acquisition of the then largest LatAm bottler Panamco
- In 2010, FEMSA sold Cervecería Cuauhtémoc Moctezuma to Heineken in exchange for a 20% interest in the Heineken group and reduced this stake to 14.8% in 2017 due to a partial sale
- Beginning in 2013, FEMSA entered the drugstore business by acquiring Farmacias YZA and FM Moderna in Mexico as well as Cruz Verde in Chile. Meanwhile, the company kept opening OXXO convenience stores at an accelerating pace reaching 10k units in 2011 and 20k units in 2021
- In May 2020, FEMSA closed a transaction with the shareholders of **WAXIE** and **North American** to form a new company (**Envoy Solutions**) within the janitorial-sanitation, packaging and specialized distribution industry in the U.S. Since then, FMX has added 17 additional distributors to the group and has spent over \$2+ bn in total to form Envoy as a new growth platform for the conglomerate
- In July 2022, FEMSA announced its intention to acquire Swiss listed c-store chain (e. g. kiosk with 850 stores in Switzerland) and food service (e. g. Backwerk, Ditsch, Brezelkönig) conglomerate **Valora** for an enterprise value of \$1.4 bn. FMX further announced its intention to invest incremental capital in Europe through Valora in a potential attempt to consolidate the local c-store market and improve margins

KEY PEOPLE YOU SHOULD KNOW AT THE COMPANY



JOSÉ ANTONIO FERNÁNDEZ CARBAJAL ("EL DIABLO")

Executive Chairman

Age 68, joined FMX in 1988, worked for the brewery until he took a managerial role at OXXO. Fernández restructured and downsized OXXO before the chain started growing again to >20k units. He was CEO from 1995-2014. Besides his **contribution to scaling OXXO**, he **oversaw KOF's acquisition of new regions**. While he's too young to have lived through the disastrous 1980s inside FMX, this episode is nonetheless very present for him, which **may setup the co to stay away from the most catastrophic mistakes in M&A/capital structure**



DANIEL ALBERTO RODRÍGUEZ COFRÉ

Chief Executive Officer

Age 57, joined FMX in 2015 as CFO, served as CEO of FEMCO from 2016-2021. **During his tenure at FMX RETAIL, OXXO increased its store base from 15k to >20k units and successfully rolled out financial services** in its stores covering utility bill payment, deposits, remittances, bus tickets or mobile top ups. Rodríguez previously worked for Shell in LatAm but also has a strong track record in retailing. **At Cencosud – one of the largest retailers in the region – he oversaw the development of a loyalty program similar to OXXO Premia**



JOSE ANTONIO FERNÁNDEZ GARZA LAGÜERA

Head of FEMSA Digital

Age 40, joined FMX in 2013, worked in sales for Heineken in Mexico City, co-founded Vestige Capital, a search fund that acquires SMEs. He served as CEO of FMX's small plastics division, later as Head of strategic planning at OXXO. **In 2022, Fernández was appointed to oversee FMX's digital and fintech initiatives, especially SPIN**. In my interpretation, Fernández – the son of the Chairman – rises through the ranks at FMX and **if SPIN creates meaningful shareholder value, could likely get a shot to become the group's next CEO** 41

STRENGTHS IN THE COMPANY'S CULTURE

- José Antonio Fernández Carbajal is still hugely influential at FMX and the most prominent representative of the controlling families, who own 38.69% of the shares followed by Bill Gates with 7.79% (M. Larson sits at the board.) **I'm not aware of a single instance where management took advantage of minority shareholders and management has an adequate understanding of their fiduciary duties:** *"You have to always remember the dentist of Omaha. And that's a guy that maybe has a thousand shares of FEMSA, bought it in the New York Stock Exchange. He doesn't know anything about the company, but it was recommended to him by his fund manager or whatever and he is expecting from us to make the most better decisions for him as if he was the only owner of the company. And that – as long as I will be there – will happen as I will never allow anything to go beyond what is good for the whole shareholders."* – José Antonio Fernández Carbajal, interviewed at Stanford University
- Additionally, FMX has **proven multiple times to prioritize the long-term potential of a business unit vs. a short-term financial gain** (e. g. restructuring the failing OXXO store network in the 1990s instead of a sale, which today resulted in FMX owning the 2nd largest retailer in Mexico with 11% share of the total F&B market): *"One of the advantages of this... we can call it family ownership or private ownership of certain amounts of the equity of the company is that the long-term view is there. And that is very important. None of these controlling families are there because they want to sell the shares someday. They want to create long-term value and that I think is very important. We are not thinking or worrying about the next quarter numbers – never. I even, if you ask me how they are going to be, I don't know and I don't care because we see the long-term potential of the company and that's how we work for that. We are always making decisions that will influence the numbers in the future, not in the next quarter. If you have to save some maintenance to make the numbers of the quarter look nice, you're killing the company yourself and the message you are sending to all the rest of the company is very bad."* – José Antonio Fernández Carbajal, interviewed at Stanford University

WEAKNESSES IN THE COMPANY'S CULTURE

- While FMX has a strong track record when it comes to *operational excellence* like 1) building a national beer champion from scratch, 2) developing KOF into the most profitable independent Coke bottler, 3) scaling OXXO into the 2nd largest domestic retailer, **going forward a larger part of potential value creation will be a result of (re-)investment skills, where historic track record is more ambiguous**
- Depending on the lifecycle of a company, family control can be a blessing or a curse. **After a multigenerational winning streak, descendants often cherish reliable dividend payments and pseudo-diversification into unrelated business while lowering ROIC hurdles for every \$ reinvested.** Today, at least 70 family members of FMX's voting trust derive significant income from semi-annual dividends (stable or raised in each of the past 10 years except for 2020, while the stock performance has been unsatisfactory)
- **FMX's board seems to be finally taking their underperformance more seriously and tasked its CEO with a comprehensive review** of all business units considering a possible break-up: *"Now we do realize, and the Board is obviously pressing us on it, that as our portfolio has gotten a lot more complicated on the one hand; and on the other hand, also the nature of our shareholder base and who they are, and what they're interested is evolving, that there is a disconnect between what the value of the individual businesses are and what we're getting in the market. So I think more importantly this year, with Daniel's new role, the Board has entrusted him with running a comprehensive strategic review of all of the different business units and obviously all of FEMSA as a holding company and as a portfolio. So we're beginning that work and we'll probably be working on that throughout the year. And that work will focus on some of these pain points, which include us trading at what we believe, as well as you do, to be a structural discount to the sum of the parts."* – Eugenio Garza y Garza, Q1/22 Earnings Call

COCA-COLA FEMSA (KOF) DOMINATES LATIN AMERICA

KOF FOOTPRINT

- KOF is the **largest franchise bottler of Coca-Cola trademark beverages in the world in terms of volume**, selling 11% of global Coca-Cola output
- In 2021, the Coca-Cola system sold 31.3 bn unit cases and KOF sold 3.5 bn unit cases. One unit case is the equivalent of 24 eight-ounce servings
- Trademark Coca-Cola products like Classic Coke, Diet Coke or Coca-Cola Zero account for 47% of total TCCC unit case volume. All sparkling soft drinks represent 69% of unit case volume. **The largest end markets for TCCC products are the U.S. followed by Mexico, China, Brazil, India**
- KOF operates 49 bottling plants and 260 distribution centers throughout LatAm. **Mexico is KOF's largest market (52% of volume) followed by Brazil (26% of volume)**. Besides Mexico and Brazil, KOF operates in 8 more LatAm countries (Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Uruguay and Argentina)

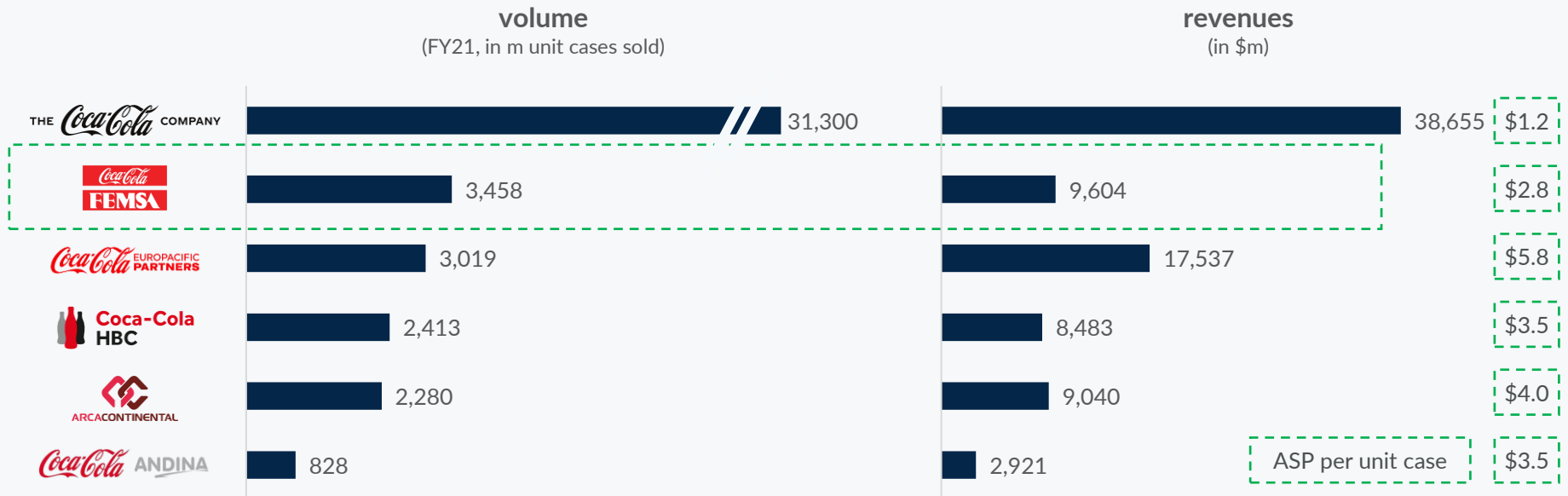


SOME BACKGROUND ON TCCC BOTTLER AGREEMENTS

- When it comes to important markets like Mexico or Brazil, **The Coca-Cola Company doesn't grant an exclusive distribution right for the entire country to just one single bottler.** Instead, it divides the market into different territories and grants exclusive rights to produce and sell Coca-Cola branded products in those territories to different bottlers
- Take Mexico as an example: In the **2nd largest country for the entire Coca-Cola system, KOF's territories cover a substantial portion of central Mexico as well as the Southeast and Northeast region** (incl. the Gulf region). The Northwest region though is covered by a competing bottler named Arca Continental
- AC and KOF have 100% market share in terms of Coca-Cola products sold in their exclusive territories. **In terms of all Coca-Cola volume sold in Mexico, KOF sells ~50% of all unit cases and Arca ~30%.** Given that PepsiCo is not really relevant in Latin America, AC and KOF both hold >70% market share in terms of total carbonated soft drinks sold in their covered territories
- **With 3.5 bn unit case volume sold in FY21, KOF generated \$9.6 bn in revenues and \$1.9/\$1.4/\$0.8/\$0.9 bn in EBITDA/EBIT/Ni/FCF for a margin of 19.9%/14.1%/8.1%/9.2%. FMX's stake of 47.2% translates to \$0.4 bn in NI for FMX's shareholders or 30% of FMX's total controlling interest NI in FY21**

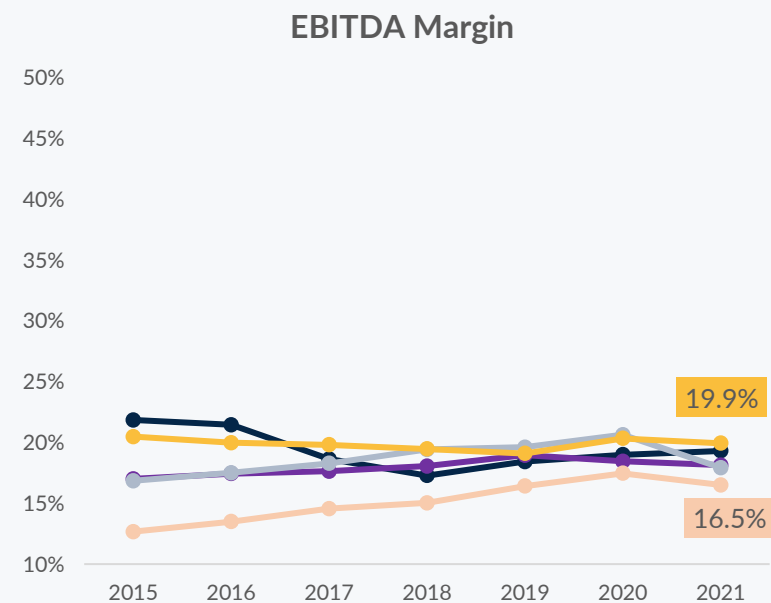
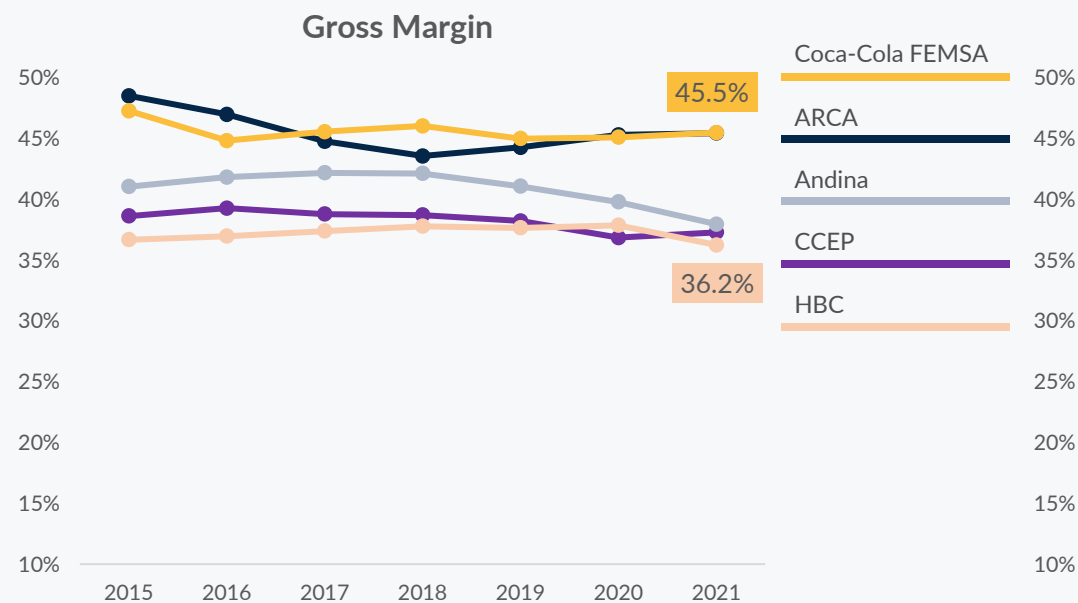
KOF IS #1 BOTTLER BY VOLUME, CCEP #1 BY REVENUE

The Coca-Cola Company sold 31.3 bn unit cases in FY21 (83% of rev comes from concentrate). KOF is #1 bottler by volume with 3.5 bn unit cases sold followed by CCEP. Measured by revenue, CCEP is the largest player as it serves higher GDP countries like Germany, France, UK, Spain with higher rev per unit case sold.



KOF IS THE MOST PROFITABLE BOTTLER IN THE WORLD

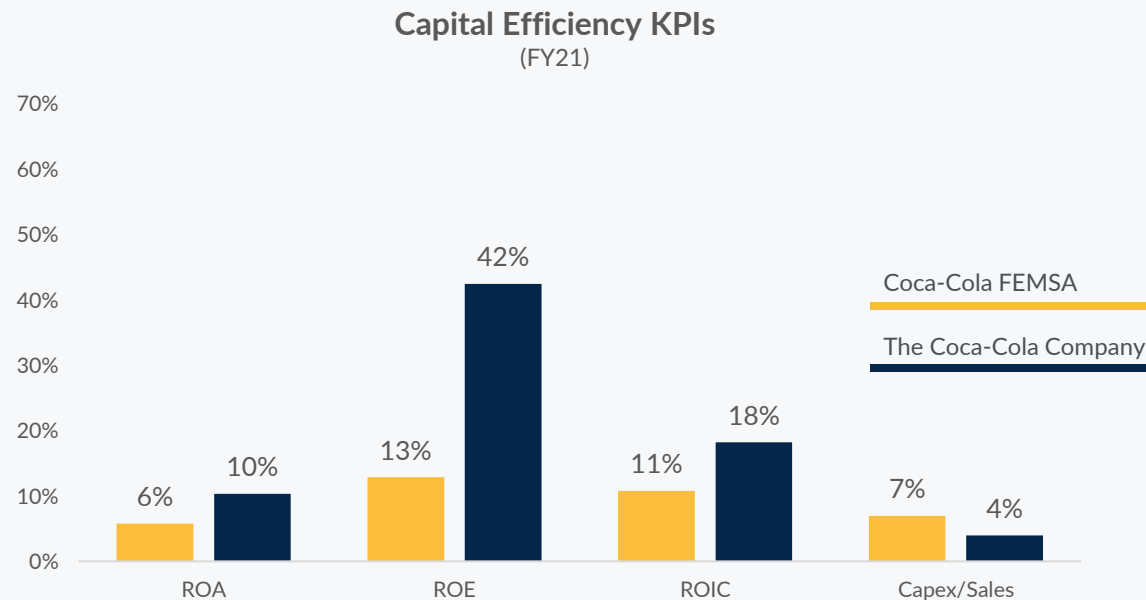
Coca-Cola FEMSA consistently prints the highest gross/EBITDA margins with 45.5%/19.9% in FY21.



BOTTLER RETURNS VS. THE MOTHERSHIP

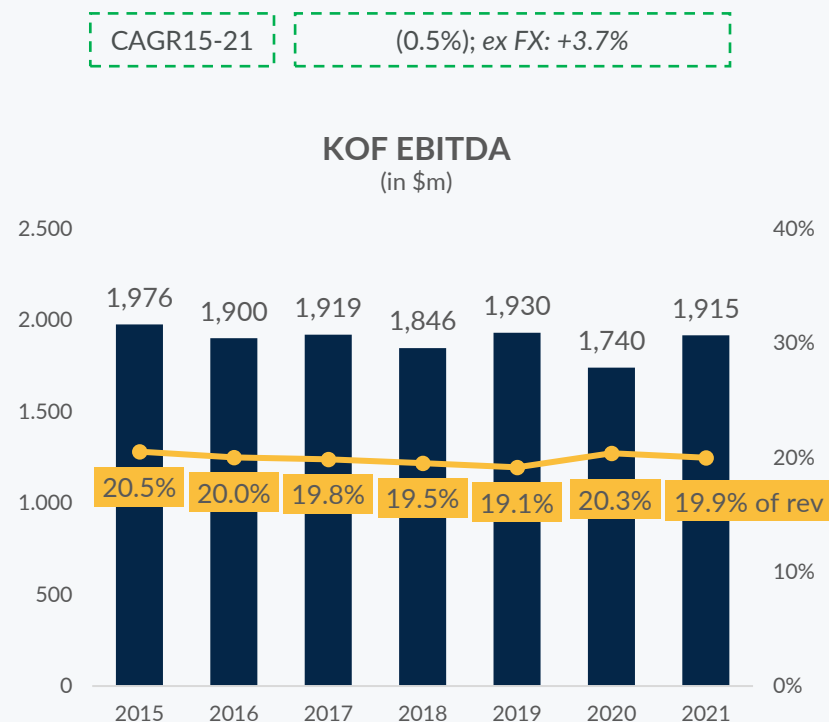
The Coca-Cola Company is extremely focused on capital efficiency. With ROIC/ROE of ~20%/40%, KO shows returns on capital 2x better than its bottlers. Producing concentrate is much less capital intensive than operating dozens of bottling plants, thus TCCC shows a ~50% lower Capex/sales ratio than bottlers.

- The Coca-Cola Company as the brand owner captures the lion's share of the entire system's economic value vis-à-vis its more capital intensive and therefore outsourced bottling partners. Coca-Cola bottlers are obliged to buy concentrate from "the mothership", then produce the finished drinks by adding water, sugar, carbon dioxide, packaging and finally distribute the finished drinks to retailers or restaurants
- The obvious question looking at *any* bottler is: will TCCC allow it a sustainable, healthy ROIC WACC spread



KOF HAS SOME NEGOTIATION POWER VS. TCCC

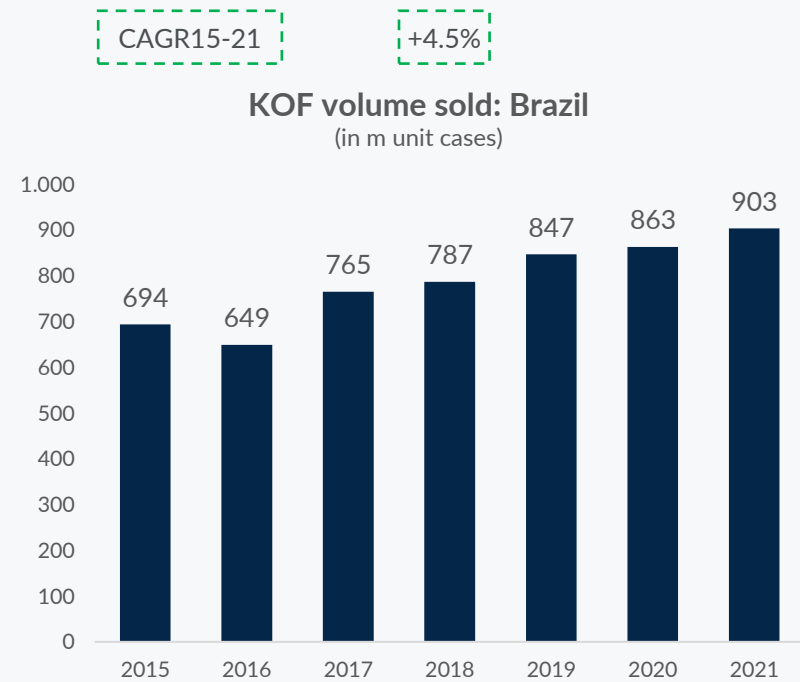
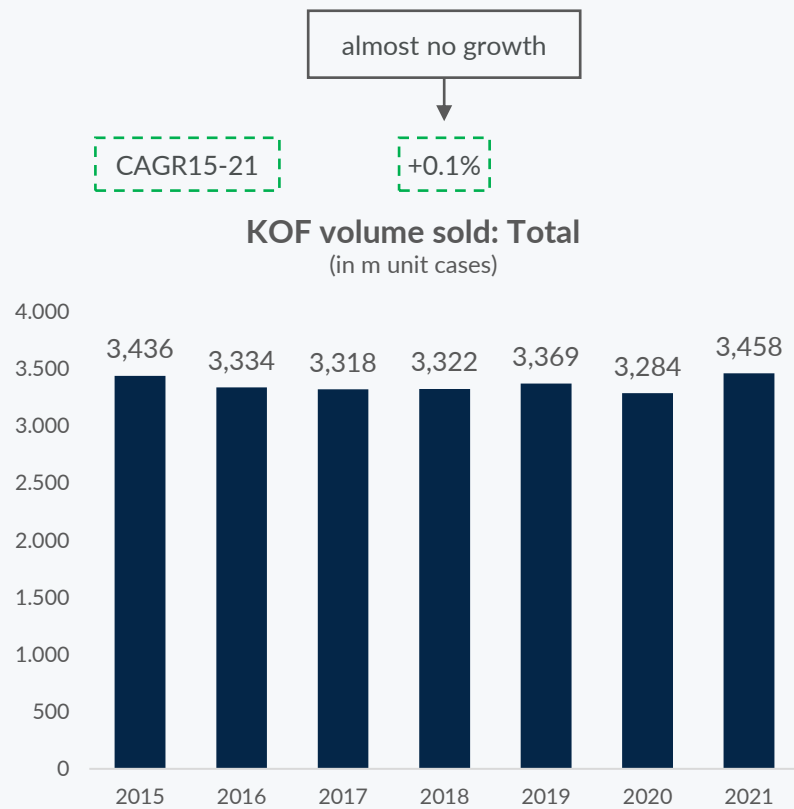
- KOF possesses a **competitive advantage** when it comes to negotiating a fair ROIC WACC spread with TCCC: FMX's ownership of OXXO!
- **OXXO is the largest retail outlet for Coca-Cola products in Mexico** – the second largest Coca-Cola market by volume – and carries the brand exclusively (i. e. no Pepsi in the stores). This retail clout gives FMX/KOF **significant leverage in their dealing with The Coca-Cola Company** favoring healthy concentrate purchasing terms
- Although specific terms are non-public, KOF and other bottlers agreed on a long-term **incidence-based concentrate pricing model** which is based on a **bottler's revenue instead of a fixed price per unit**, which helps KOF to stabilize margins, hovering remarkably consistent around 20%
- Concentrate is usually the largest COGS position for TCCC bottlers at 35-50%* of total COGS followed by packaging and sweetener at 25-45%



*in FY21, KOF paid 35% of total COGS for TCCC concentrates; Source: KOF 50

KOF IS A DIVIDEND STOCK WITH ALMOST NO GROWTH

KOF shows great cash flow stability as beverage consumption is a defensive sector. However, given the already high penetration in core markets, EBITDA and volumes came in flattish over the last years.



PEOPLE WHO EXPECTED GROWTH GOT DISAPPOINTED

No volume growth combined with multiple compression made KOF the worst performer among all bottlers (ARCA the best). It should be acknowledged here that in \$ all bottlers underperformed TCCC.

KO VS. BOTTLER TOTAL SHAREHOLDER RETURNS 10Y (IN LC)

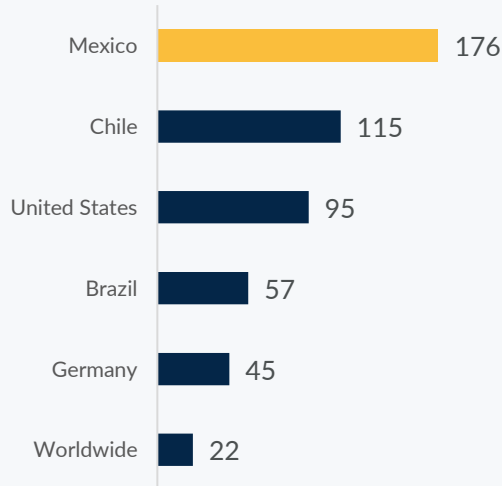


LATAM'S SOFT DRINK MARKET IS HIGHLY PENETRATED

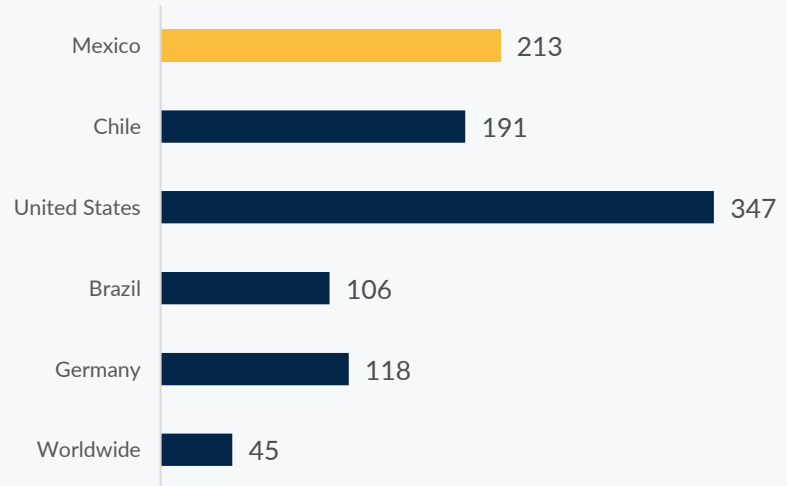
One reason for KOF's low volume growth is the already high penetration rate in many LatAm countries. Brazil is at ~50% of the Mexico/Chile consumption level, but in absolute terms close to DMs like Germany.

- With combined sales of ~\$50 bn for the soft drink industry in Mexico and Brazil, these two countries account for 60% of the region's revenues. KOF's future volume trajectory will depend on these two markets

TCCC beverages consumption per capita
(last reported numbers from KO in 2012, in liters)



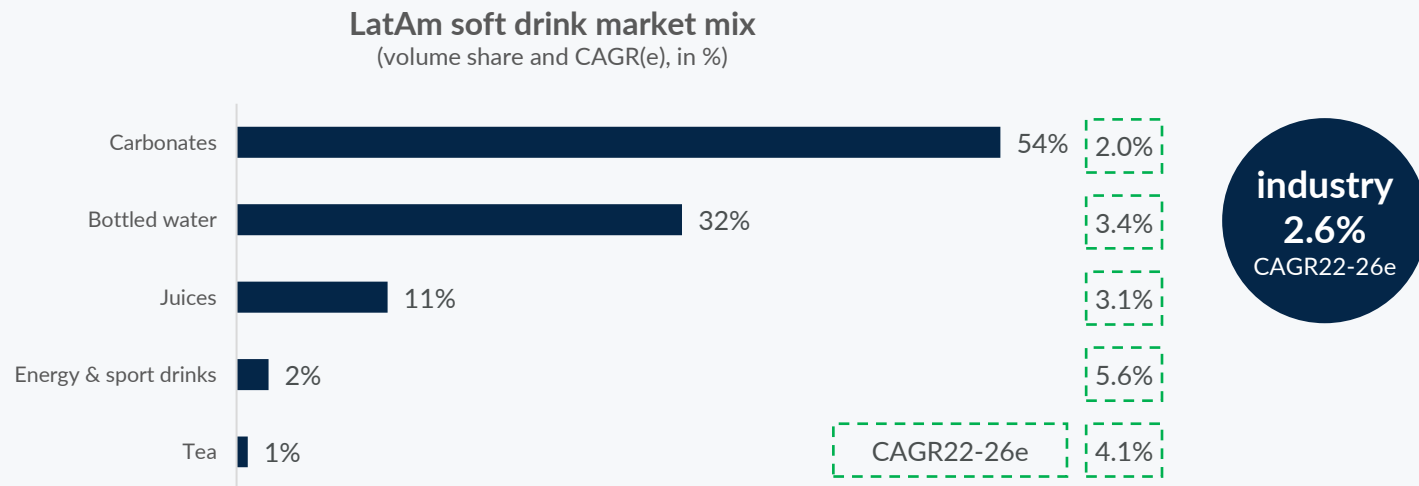
Total soft drink* consumption per capita
(2020, in liters)



KOF HAS TO FOCUS MORE ON PRICING THAN VOLUME

KOF is the market leader in what appears to be a saturated Mexican market for Coke. Additional volume growth except for a COVID catch up in CY22 seems challenging. *Pricing* growth could be easier to realize.

- Pricing growth for KOF (accompanied by innovations in formulations, product categories, bottle sizes and packaging) seems comparatively easy to achieve given the unrivaled category share of Coca-Cola in LatAm soft drinks (where Pepsi is often unpopular compared to e. g. the U. S)*
- Euromonitor expects a volume CAGR of 2.6% for the LatAm soft drinks market over the coming years (see below). Given that leading bottlers in LatAm like KOF/Andina with high exposure to Mexico/Chile averaged only 0.1%/0.2% annual volume growth since 2015 vs. 1.2% for TCCC, I'd judge this as demanding



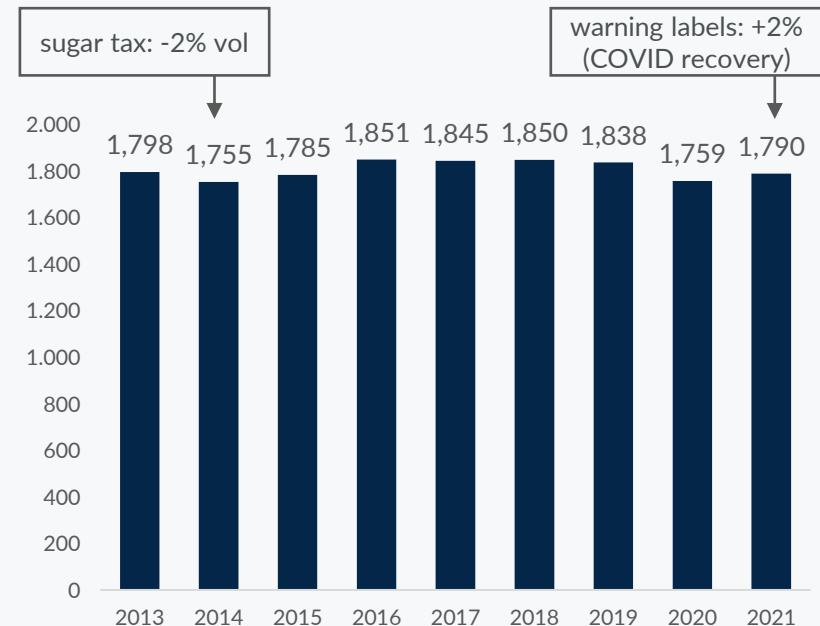
*another difference between NA and LatAm is: Bottlers need to be better in distribution since the retail landscape is fragmented and drop sizes (avg. 2 cases per store/week vs. 200+ in the U.S.) are much smaller; Data Source: Euromonitor

REGULATORY HEADWINDS: THE FIGHT AGAINST SUGAR

- Epidemiological studies show a high intake of sugary drinks is associated with obesity, diabetes, higher risk of cardiovascular diseases, a finding TCCC allegedly tried to downplay for some time*
- Obesity rate for adults is ~35% in Mexico vs. 40% in the U.S., outstripped only by many Pacific Islands (like Tonga, Samoa, Palau due to poor quality and energy-dense food imports). Governments impose measures to hinder excessive calorie intake by e. g. introducing sugar taxes, disclosure/warning labels or an outright ban of selling junk food to minors
- Mexico imposed a tax of P\$1 per liter of sugary drinks in Oct. 2013, which led to a 2.4% volume decline for KOF in Mexico in FY14. The company increased prices by 16% (a testament to pricing power for Coca-Cola products in LatAm) and cut 1,300 jobs to protect profits. In 2020, Mexico introduced warning labels that must be placed on the front of packaging (see on the right)



KOF MEX VOLUME (IN M UNIT CASES)



Data Source: KOF 55

*see e. g. <https://www.dailymail.co.uk/health/article-8589497/Coca-Colas-work-scientists-low-point-history-public-health.html>

REGULATORY HEADWINDS: THE CASE OF CHILE/ANDINA

- In Chile – which has a per capita consumption of Coca-Cola products similar to Mexico – the government implemented an **even more cohesive approach to curb excessive calorie intake in 2016**, including **front-of-pack warning labels**, a **ban of advertising for kids**, a restriction of sales in schools and a tax on sugary drinks
- Taillie, L. S., Reyes, M., Colchero, M. A., Popkin, B., & Corvalán, C. (2020) find that **these measures led to a 24%(!) decrease in purchases of sugar-sweetened beverages**. What sounds like a *catastrophic* impact on bottler volumes in the region, especially for Coca-Cola Andina, which derives 45% of revenues from Chile, is in reality more complex though (see on the right)
- From 2016-21 Coca-Cola **Andina overhauled its CHL product portfolio**, changing its soft drinks mix from **25% low/zero sugar to 65% low/zero sugar**, which customers responded favorably to (sth. KOF could also do in the future if needed)

ANDINA CHL VOLUME (IN M UNIT CASES)

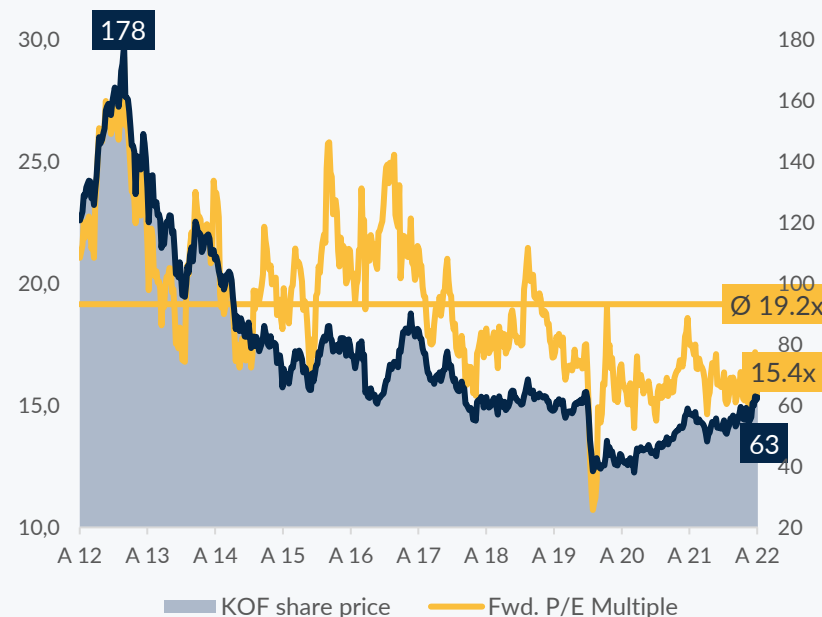


Data Source: Andina 56

KOF'S DOWNFALL DERISKS FMX'S PROFILE A BIT

- As I mentioned before, I think one reason for FMX's share price underperformance in the past is market participants overpaid for KOF *big-time*
- KOF has fallen ~65% from its peak since then to more reasonable levels, increasing the odds that future FMX earnings growth could once again translate into positive total shareholder returns
- KOF currently trades around ~15x NI or ~7x EBITDA, which compares favorably to what an informed strategic buyer was just willing to pay for a large independent Coca-Cola bottler (i. e. CCEP acquired Amatil in 2021 for 12x EBITDA)
- Vaccines arrived later in Mexico than in the U.S. and during the pandemic consumers opted for Coke multi packs vs. higher margin single serve presentations on the go. **Should KOF's mix improve and multiples catch up to peers, some market participants see room for 100% upside***

KOF FWD. P/E AND SHARE PRICE



*while I'm generally more concerned about the downside of any investment case, [this PM wrote down an enjoyable to read bull case for KOF](#) 57

OXXO: FROM LAME DOG TO CROWN JEWEL

Proximity represents 78% of FMX RETAIL EBIT – virtually all coming from OXXO Mexico. FMX RETAIL prints an EBIT margin of 7.6%, while OXXO is above average (9.3% EBIT margin). The c-store chain is the crown jewel, but it's serendipitous that it's even still around as OXXO was unsuccessful for *decades*.

“WE HAD BY THEN 500 STORES LOSING ALL THE MONEY THAT YOU COULD IMAGINE AND THE CEO OF THE BREWERY USED TO SAY: **I DON'T EVEN UNDERSTAND THIS BUSINESS, THIS RETAILING BUSINESS IS NOT FOR US.** [...] AND I SAID, YOU KNOW, THIS BUSINESS HAS A LOT OF POTENTIAL AND IT'S A PITY THAT NOBODY TAKES CARE OF IT. SO THIS GUY SAID: SO YOU THINK THAT OXXO HAS SOME POTENTIAL? WHY DON'T YOU GO AND RUN IT! [...] SO I WENT THERE AND STARTED RUNNING THE THING. ONE OF MY CLOSEST ADVISORS TOLD ME WHEN HE CAME TO VISIT ME A MONTH LATER **I WAS SCARED TO DEATH AND I SAID WHY DID I ACCEPT THIS THING? I DON'T KNOW ANYTHING, I DON'T UNDERSTAND THE BUSINESS, IT WAS A MESS, TOTAL MESS.** [...] WHAT I DID CHANGING THE EMPLOYEES, ASKING FOR NEW THINGS, CLOSED HALF OF THE CHAIN, WE WENT DOWN TO 300 STORES ALMOST IN SIX MONTHS, AND TRIED TO UNDERSTAND, TO DEFINE OURSELVES, TO CREATE A VISION, TO CREATE A DREAM [...] WHEN I GO THERE NOW AND SEE WHAT THEY HAVE BEEN ABLE TO DO, WHEN YOU ISOLATE THE BUSINESS FROM THE BREWERY THAT WAS SHADOWING IT TOO MUCH AND ASK THEM TO FOCUS AND GET THE HIGHEST SOPHISTICATION ON RETAILING THAT'S POSSIBLE, NOW THIS IS A TREMENDOUS BUSINESS. **TODAY IS THE MOST PROFITABLE BUSINESS WE HAVE ON A RETURN BASIS. BY FAR ONE OF THE MOST PROFITABLE BUSINESSES IN MEXICO** AND WITH A LOT OF POTENTIAL TO GROW OUTSIDE.”

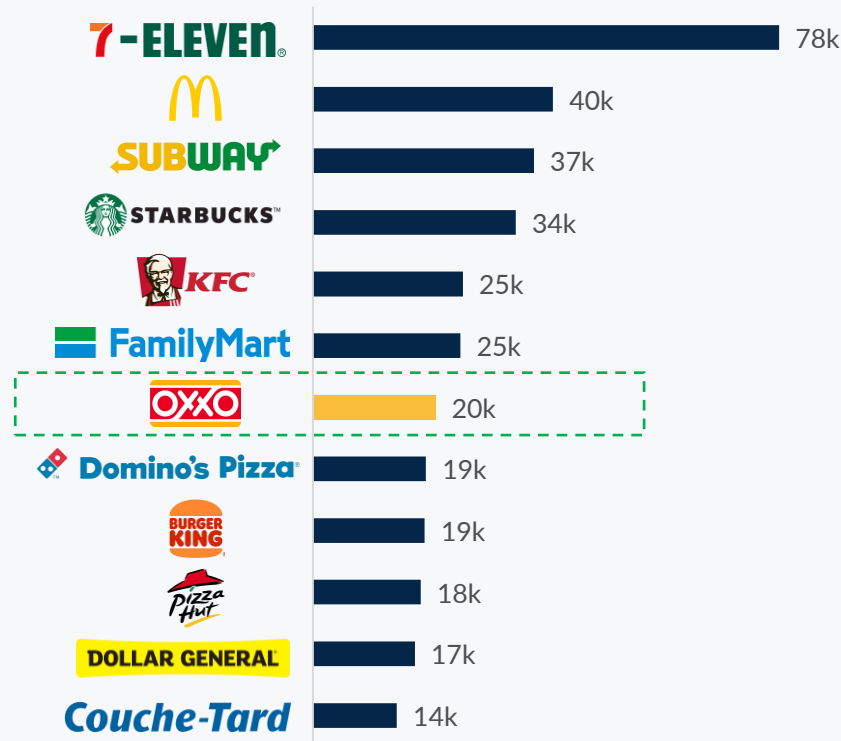
- JOSÉ ANTONIO FERNÁNDEZ CARBAJAL, INTERVIEWED AT STANFORD UNIVERSITY

THE LARGEST C-STORE CHAIN YOU NEVER HEARD OF

With 20k+ stores, OXXO is the #1 c-store chain in Mexico with 85%* market share and 10x lead vs. #2 7-Eleven. It employs 160k people and is the #2 retailer by revenue in the country after Walmex, which is the country's biggest private sector employer. Looking beyond Mexico, OXXO is the 7th largest chain globally.

- OXXO had revenues of \$9.8 bn in FY21 making it Mexico's second largest retailer (11% F&B market share). Each day, >13m people shop at an OXXO and the c-store chain is considered as benchmark in SSS and sales productivity in Mexico
- Over the past 10 years, OXXO increased SKUs per store over 60% to 3,278 in 29 product categories by increasing visits to each store to 2+ per week from 21 distribution centers in Mexico
- Walmex is the #1 retailer by revenue and had revenues of \$30 bn in FY21 in Mexico vs. \$9.8 bn for OXXO. In the top five cities of Mexico, 88% of the population lives within 10 minutes of a Walmex store. Walmex has 2,756 stores in the country vs. 20,121 for OXXO as of FY21
- OXXO reaches a 27%+ ROIC, making it FMX's most attractive division. Capital deployment here is the best way to create shareholder value. In the past, OXXO opened >3 stores per day on average and should reach MSD growth in SSS long term

LARGE RETAIL CHAINS: STORE COUNT

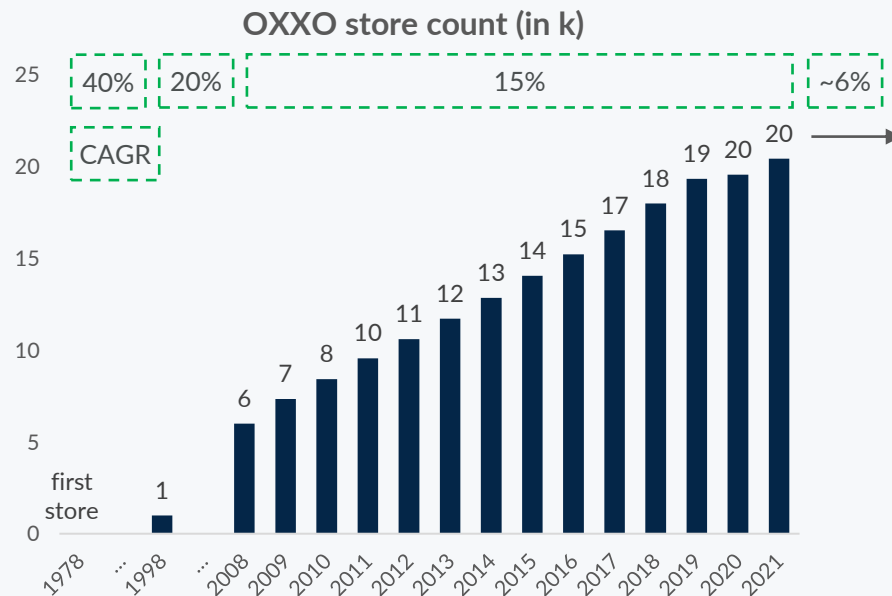


*goes down to 70% if beer deposits are included; Data Source: company filings 60

OXXO'S STORE COUNT EVOLUTION SINCE LAUNCH 1978

OXXO was off to a slow start. The first store opened 1978 in Monterrey and the rollout was seen as an afterthought to the beer business. The stores should generate customer feedback on new products and control a part of the brewery's commercial agenda. It took 20 years until OXXO reached its first 1k stores.

- **How OXXO competes vs. mom & pops:** 24h service, top brands, security, atmosphere/cleanliness, variety, coffee-to-go, parking. Tienditas fight back by offering fresh fruit, squeezed juices, vegetables. At an OXXO, you won't find produce, fresh vegetables or fruits. Mom & pops avoid regulation, taxation, keep OPEX low
- **How OXXO competes vs. supermarkets:** convenience, proximity, faster service, personalized attention



There are ~1m informal mom&pop shops (tienditas) in Mexico and OXXO thinks it has about 2% unit share



OXXO PLANS TO DOUBLE IN SIZE OVER NEXT DECADE+



OXXO is the **one-stop shop** that simplifies life for **more than 13 million** consumers **every day**.



Today...



Through its **+20,000 locations**, OXXO's **consumer-centric** value proposition evolves constantly, using **incremental insights** to grow and improve assortment, pricing, segmentation, and services.



OXXO has a unique value proposition, offering the **convenience of a corner store** with the **pricing of a big box**, and **over 7,400 services** to make life easier for our customers.



OXXO operates as a **system**, where the stores, the regional offices, the logistics network and the central services office operate in **close coordination**.

...and Tomorrow



OXXO aims to replicate its consumer centric value proposition and operating system to **double in size in the next ten years** across its markets.



OXXO leverages its **large scale** in Mexico to achieve **above-average margins and returns**, and aims to replicate this in Colombia, Chile, Peru and Brazil¹.

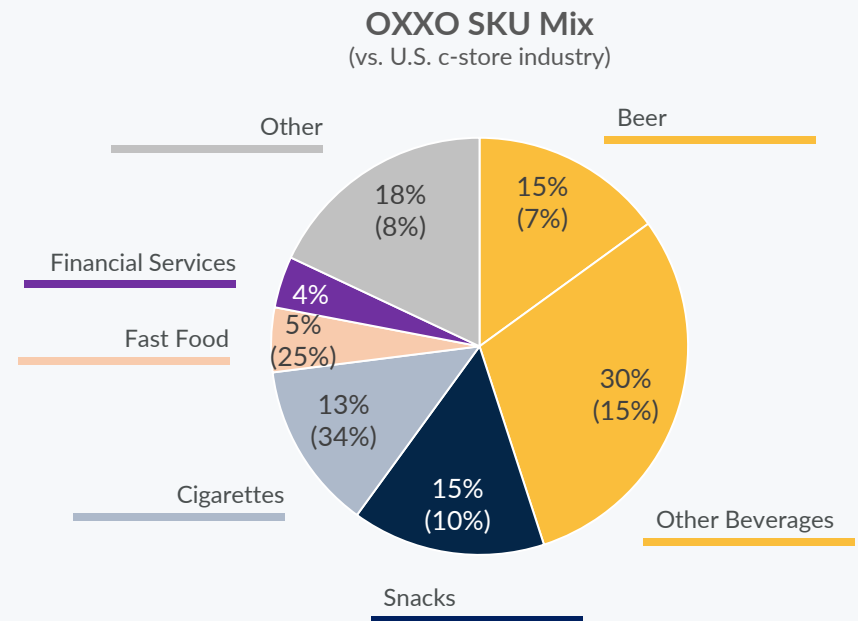


Anchored on its capillarity, OXXO is building a **customer-centric digital ecosystem** to fulfill consumers' **financial needs while rewarding them for their everyday spending**.

OXXO DERIVES HALF ITS SALES FROM BEVERAGES

An average OXXO carries around 3.3k SKUs and beverages are the most important category for the chain. Net fees collected for financial services are only 4% of rev but OXXO's highest-margin product offering.

- In terms of sales volume, **OXXO's most relevant categories are beer and other beverages, followed by snacks and cigarettes.** OXXO is the single largest seller of beer in Mexico. Beer and snacks are high-margin items
- **Until 2019, OXXO exclusively sold Heineken brands in its stores** but since then added SKUs from Grupo Modelo – the market leader in Mexico. Modelo's Corona – especially popular in the Central and Southern region – will be rolled out nationwide by end of 2022. **The Coca-Cola exclusivity agreement in soft drinks is still intact**
- **Financial services amount to 4% of sales (own estimate) and a larger portion of profits** due to high gross margins. Starting from a low base in 2010/11, services grew 20%+ for many years



SOME BACKGROUND ON OXXO'S OPERATING MODEL

OXXO c-stores don't operate under a franchise model. Instead, the stores are 100% company owned. The property where the stores are built upon is primarily leased (87% of all units) under 15-year contracts.

- 46% of OXXO stores in Mexico are operated by independent managers responsible for all aspects of store operations and hiring. The store managers are not employees of FMX (they are commission agents) and they act as the legal employer of the store's staff, usually six to eight people per store (3 shifts with at least 2 people)
- OXXO store leaders are ranked on A/B/C rankings regarding employee turnover or shrinkage. A-ranked store leaders receive higher commissions/greater autonomy than C-ranked leaders, who receive more supervision/training
- Store leaders have to engage with daily and weekly checklists to identify improvement potential for their store operation (see right)
- FMX tries to share best practices amongst store leaders by having monthly discussions amongst peers and inviting criticism from all employees

DAILY STORE CHECKLIST

Service

- *Image/Behavior of staff*
- *Customer Service/speed*
- *Service at register*

Exterior

- *Cleanliness, appearance of store exterior*

Sales floor

- *General cleanliness*
- *Promotional displays*
- *Product and ice displays*
- *Product conditions*
- *Product supply and turnover*

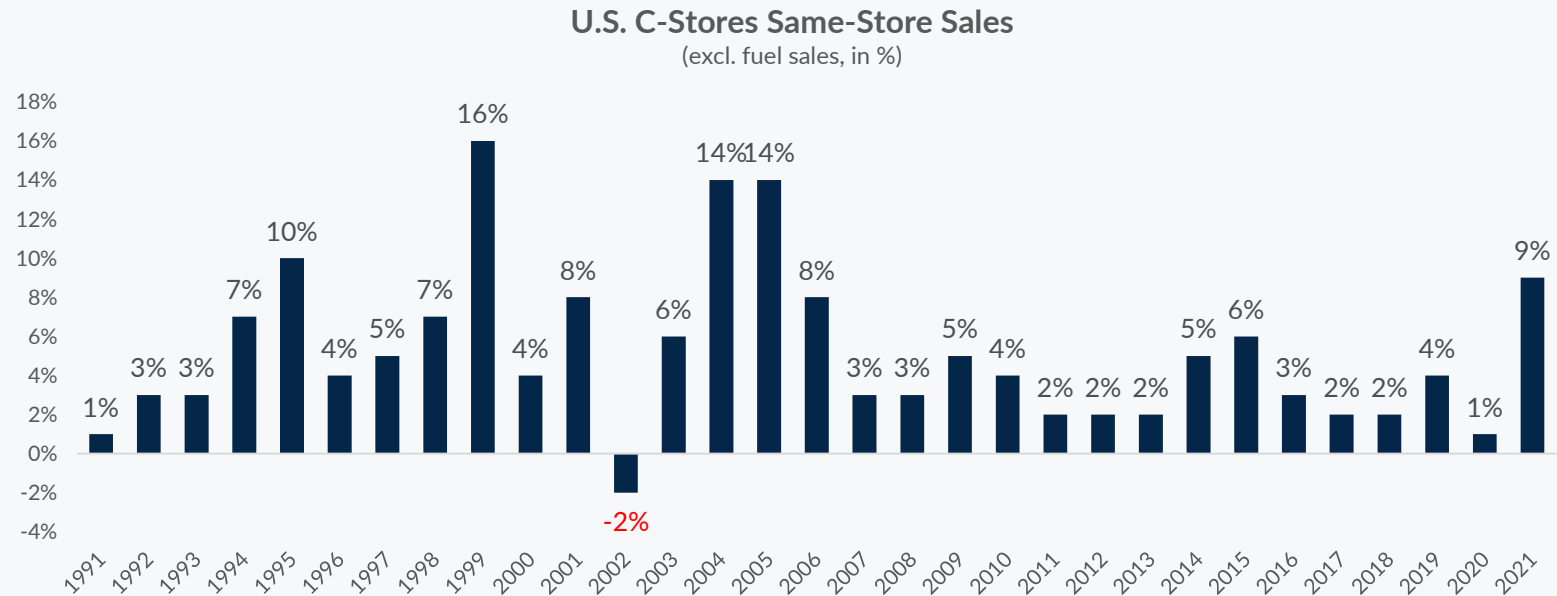
Fast Food

- *Cleanliness of Fast Food area*
- *Food display, management, temperature control*
- *Supply warehousing and shrinkage control*
- *Execution of Fast Food beverages*

[...]

THERE IS A LOT TO LIKE ABOUT C-STORES IN GENERAL

In the U.S., c-stores collectively had only one SSS decline in 30 years and averaged +5% SSS growth p. a.



OXXO'S ECONOMIC MOAT IS ITS SCALE ADVANTAGE

OXXO's single most important competitive advantage is based on economies of scale and to a lesser point brand trust, which can be leveraged to offer high-margin financial services and roll out a digital wallet.

- **OXXO operates a near monopoly in the formal Mexican c-store market with 85% market share.** That number goes down to 70% if beer deposits like Six or Modelorama are included. OXXO has 10x the number of stores of its closest competitor 7-Eleven and is the largest retail outlet for Heineken Mexico and Coca-Cola FEMSA. It's second only to Walmex when it comes to overall domestic retail sales (\$9.8 bn vs. \$30 bn)
- **With that size comes a lot of purchasing power** (especially in beverages where OXXO generates 45% of its sales). Additionally, OXXO receives more generous amounts of marketing support from suppliers. As a result, **Proximity Division had gross margins of 42.4% in FY21 vs. 20-30% at many other defensive retailers**
- OXXO also benefits from lower logistics costs than many of its peers. 57% of SKUs are direct-store deliveries, where the supplier eats most of the costs of the last-mile delivery. The remaining deliveries are handled by **OXXO's internal logistic operations from 21 dedicated distribution centers, where the company achieves higher truck densities per route than smaller competitors** (i. e. lower fixed costs per item)
- Having OXXO and KOF under one roof leads to a cross-pollination advantage, because trends in c-stores inform formulation or presentation initiatives at KOF. Compared to the mom & pops, **OXXO can run A/B tests between many stores and process more customer data**, which in turn can be used for better inventory management and a more tailored expansion strategy → due to the sum of these tailwinds, **OXXO achieves EBIT margins of 9%+ vs. LSD for an average retailer**

UNIT ECONOMICS ARE ABOVE 27%

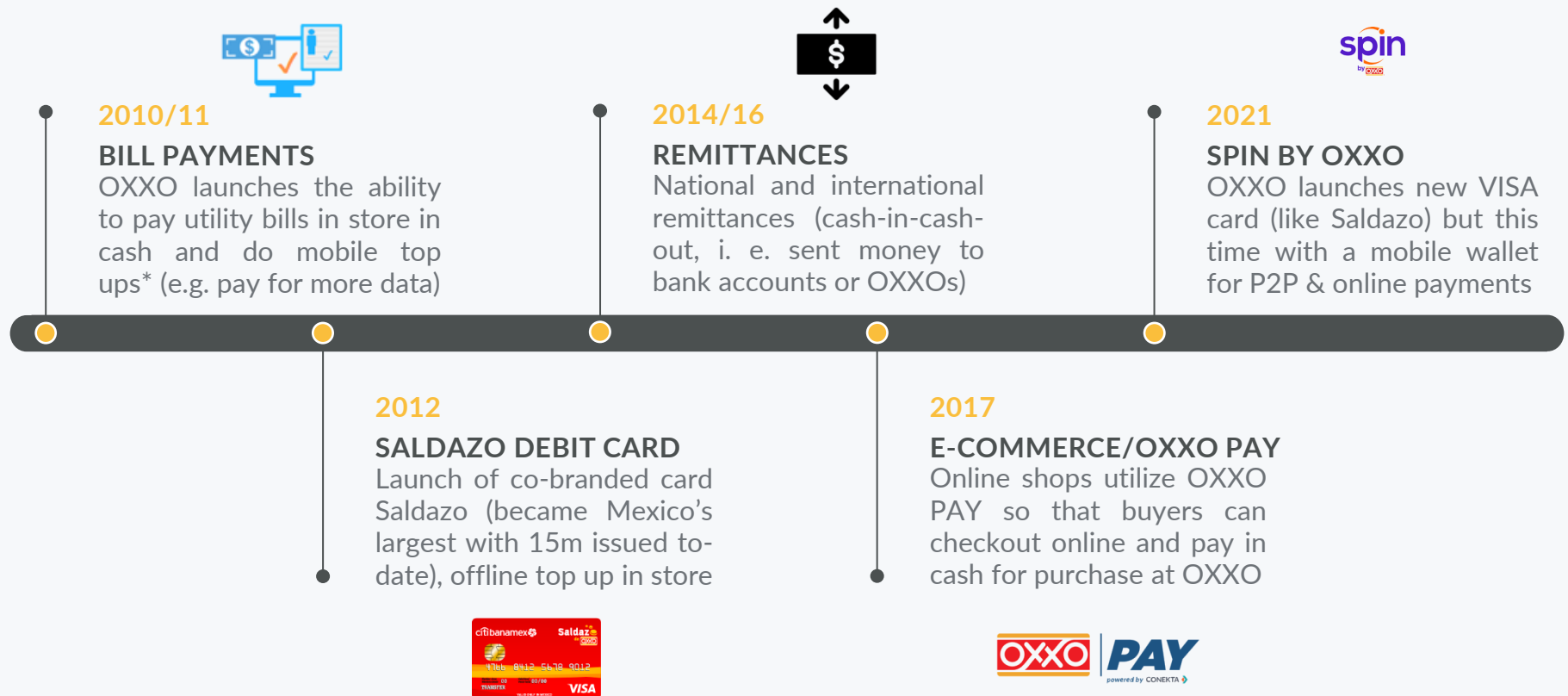
A typical OXXO costs ~\$125k to open, reaches 10% EBIT margin after 6-18 months and cash recovery occurs within 3-4 years (27%+ ROIC). While this is a highly attractive capital deployment opportunity for FMX, it's a far cry from what true ROIC champions in retail like SHW (70%+) or CMG (50%+) can achieve.

- The average size of an OXXO store is approximately 105 sqm of selling space. Including space dedicated to refrigeration and storage, it's 189 sqm. As of FY21, the average OXXO carried 3,278 different SKUs in 29 main product categories and offered 7,400 different financial services
- 87% of OXXO stores are located on leased properties. Rent contracts last 15 years and are auto-adjusted to inflation annually. **Most OXXOs are open 24 hours and serve an average of 700 customers a day**

OXXO UNIT ECONOMICS	OWN ESTIMATES
Opening costs per store	\$125k
thereof: Capex	\$125k
thereof: Working Capital	n. m. (received on supplier credit)
AUV at maturity (12-18 months)	\$480k
EBIT at 10% margin	\$48k
NOPAT at 30% tax rate	\$34k
ROIC (NOPAT/opening costs)	27%+

THE TIMELINE OF MOVING INTO FINANCIAL SERVICES

To drive store traffic, OXXO introduced financial services in 2010 and became a bridge between the large unbanked population in Mexico and merchants that want to receive online payments from the former. People can pay in store for streaming service subscriptions, utility/mobile bills or transfer cash to a bank.

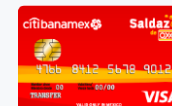
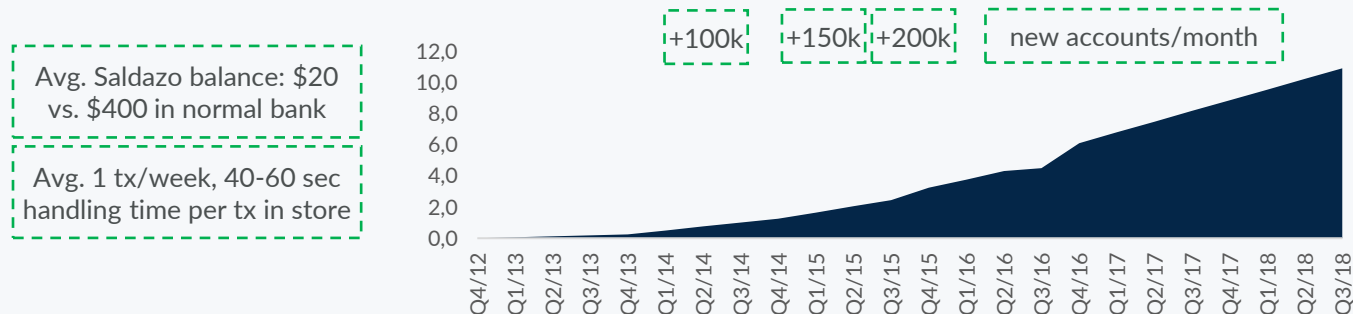


SALDAZO SHOWS OXXO'S SKILL IN CUSTOMER SIGN UPS

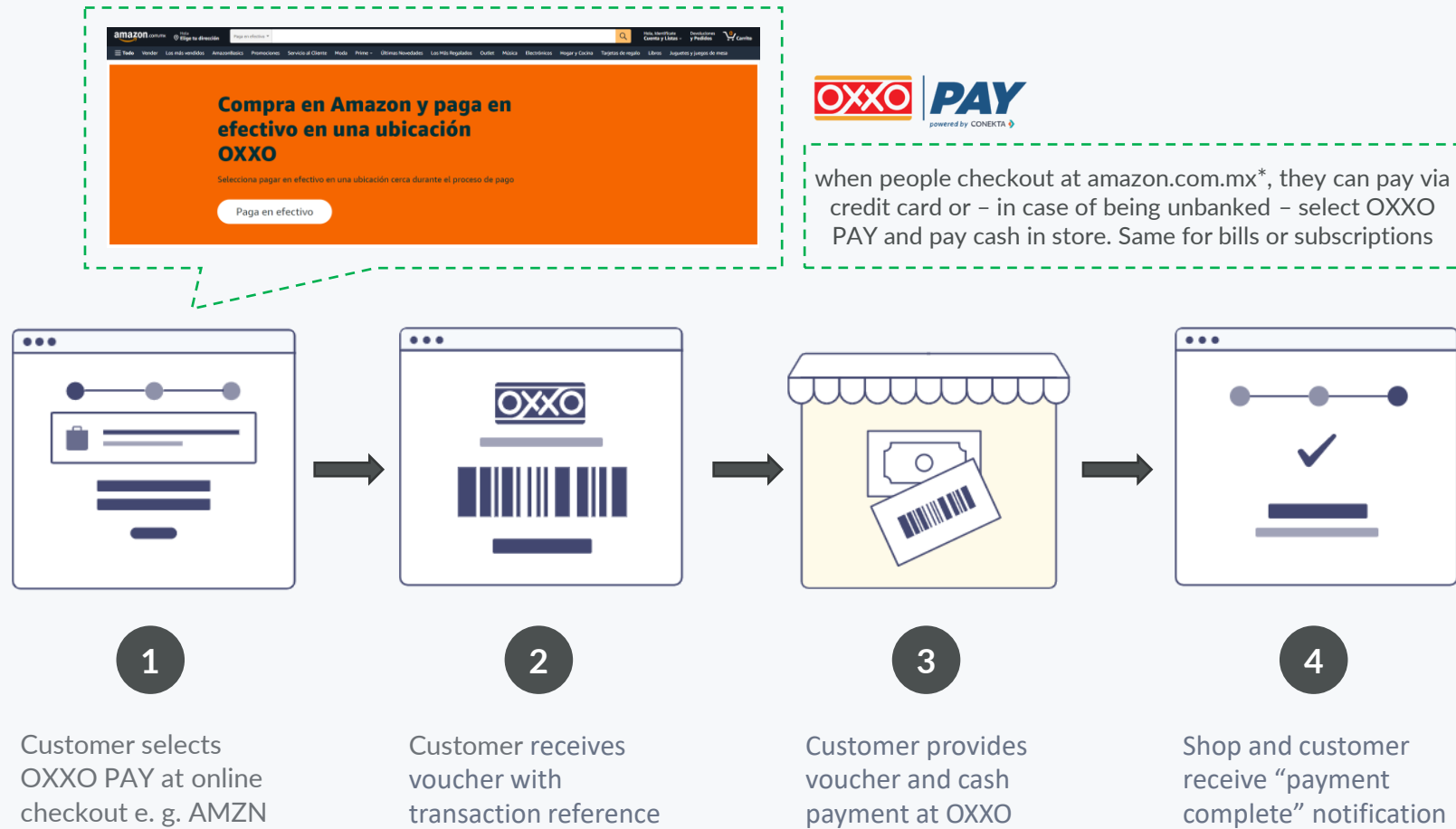
From 2012-20, OXXO proved it can sign up lots of customers via its c-stores issuing a total 15m Saldazo cards („big payment“) of which ~60% are actively used representing >8% of debit cards in Mexico. With its recently launched mobile wallet SPIN, OXXO again tries to acquire customers cheaply through its c-stores.

- Saldazo is a co-branded debit card between OXXO/Banamex started in 2012 after regulatory requirements for banking agents were lowered. The CNBV highlights two prerequisites which made this possible: *“The first, was to allow the opening of accounts in a simplified manner, in which the authority defined **four account levels that are distinguished by their maximum volume of transactions and by the documentation required for their opening.** For example, for the opening of a level 2 account, only the name, date of birth and address is required, but only deposits of up to 3000 monthly investment units can be made. For the second, operation rules regarding mobile telephony were established, in which **mobile telephones are allowed to make payments associating a telephone number to a client’s account number,** reducing transaction costs for both parties.”*
- To open a new account, OXXO targets a handling time of less than 5 minutes, and all people need is an ID, a phone number and e-mail to sign up. After picking up steam, **Saldazo added 250k+ new customers/month which equals the current growth rate of SPIN by OXXO (300k/month) less than two years post launch**

SALDAZO TOTAL ACCOUNT EVOLUTION IN M



OXXO PAY = 20% OF MEXICO'S ONLINE TRANSACTIONS



*besides Amazon, leading Mexican online retailers Linio and MercadoLibre accept OXXO Pay as well; Image Source: Stripe, Amazon 70

HOW LARGE IS OXXO FINANCIAL SERVICES TODAY?

I estimate financial services represent 4%/12% of total OXXO rev/EBIT (as rev comes with higher GM). A big contributor is OXXO Pay which charges online merchants P\$12 + 3.5% similar to PayPal \$0.49 + ~3%.

- Financial services contributed significantly to the gross margin expansion from mid 30s to low 40s, while growth moderated lately due to COVID
- "Historically or at least for a long time now, the two main drivers of gross margin expansion have been the financial services category and the commercial income that we receive from our supplier partners. Right now, as Eduardo has said, I think a positive surprise has been the resilience and even the faster growth of financial services during the downturn, as consumers have kind of made sure that they're keeping current with their memberships and their utilities and realizing or taking advantage of the fact that it's a lot easier to go to OXXO than to go to the bank and it's less time-consuming. And so even though financial services had been contracting or at least it has been growing less in recent quarters in the last two, three quarters, this quarter, it actually – the growth came in the high single digits."* – Juan Fonseca, Q2/20 Earnings Call

SERVICES	FEE
bill payment	P\$10
deposits	P\$5-10
money transfer	5%
bus tickets	P\$10
OXXO Pay	P\$12 + 3.5%

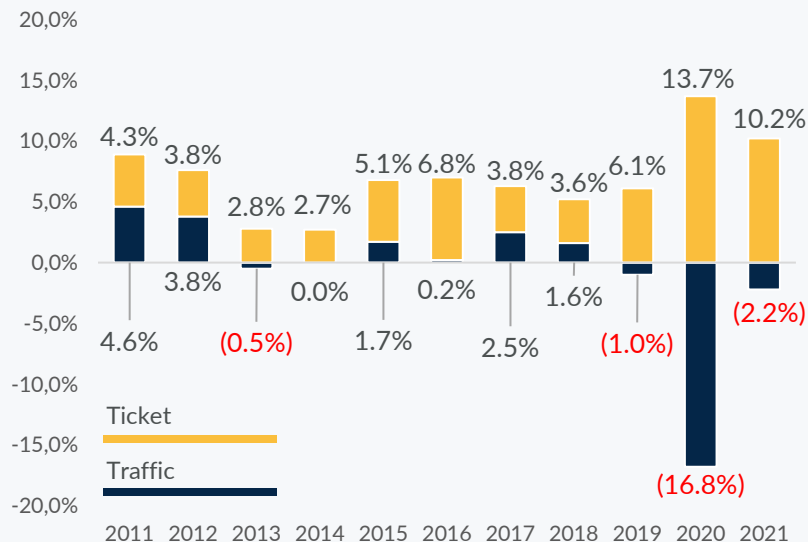
P&L (IN \$M)	OXXO TOTAL	SERVICES
revenue	9,790	394 (4.0% of total)
gross profit	4,151	236
GM	42.4%	60.0%
OPEX	3,244	130
% OPEX	33.1%	33.1%
EBIT	906	106 (12% of total)
EBIT margin	9.3%	26.9%

FINANCIAL SERVICES BOOST C-STORE GROSS MARGINS

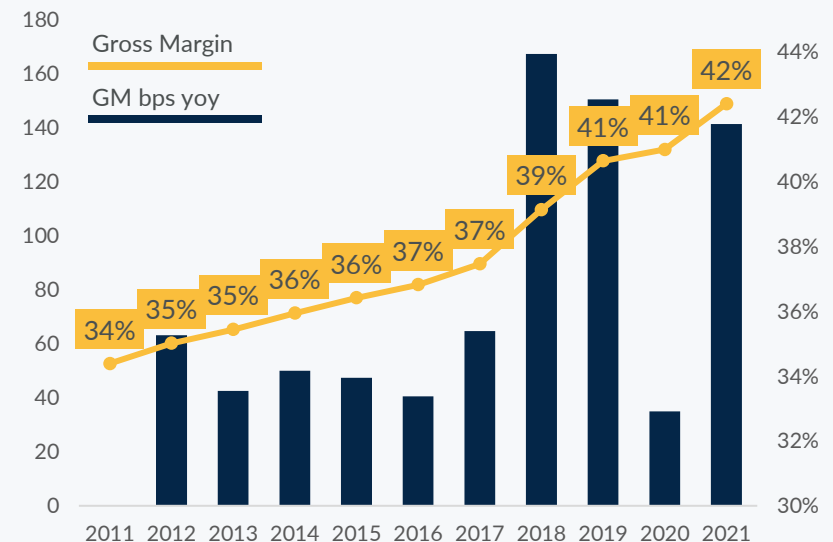
Pre-pandemic financial services grew consistently 20%+ and represented up to 80% of daily cash volume at OXXO. The money of course belongs to third parties except for the high gross margin fees OXXO keeps.

- OXXO's push into financial services is a success story. It leveraged its dense store footprint, long opening hours* and brand value vs. several banks in Mexico which are known for notoriously long waiting lines and have trust disadvantages with some parts of the population. While financial services and commercial income from suppliers helped GM increase by 80bps p. a., EBIT margin increased only 20 bps p. a. due to more training, hiring of more skilled staff and the shift from commission- to employee-based store teams

OXXO Traffic and Ticket Growth



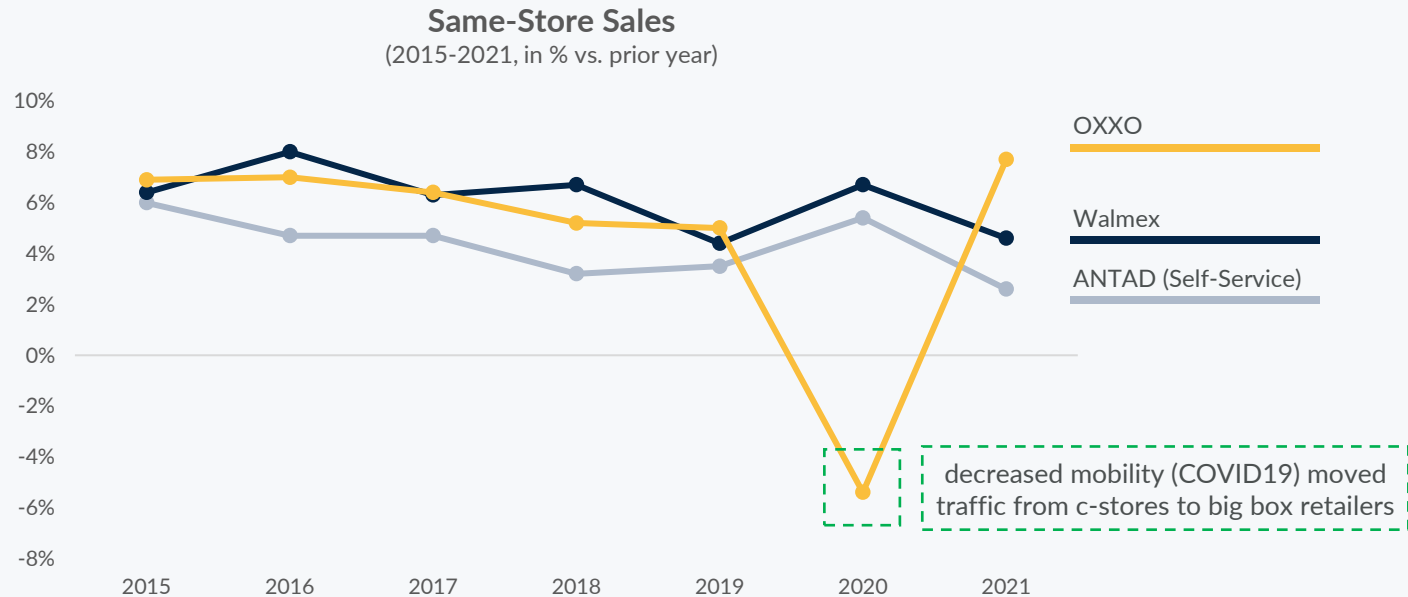
OXXO Gross Margin



*many OXXOs are open 24/7 while some financial services are only available 8am to 8pm, seven days a week; Data Source: FEMSA 72


BOTH OXXO AND WALMEX OFTEN OUTPERFORM



Pre-pandemic OXXO (11% of the total F&B market in Mexico) and Walmex (20%) often achieved higher SSS than the overall domestic retail industry. Mexicans in urban areas tend to do their main grocery shopping at supermarkets, where the principal chains are Walmex, Soriana (7% F&B share) and Chedraui (5%).

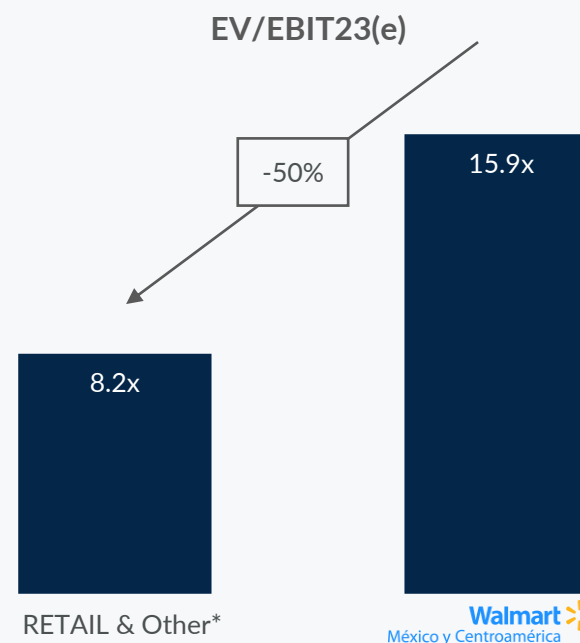


OXXO VS. WALMEX: WHAT'S SIMILAR AND WHAT'S NOT?

The clearest difference between OXXO and WALMEX is the 19PP margin differential in GM. This stems from high markups on small-ticket items in c-stores as well as the financial service offering. Higher volume per SKU gives WALMEX a clear OPEX advantage and also better EBT/EBITDA conversion ratios.

FY21 (IN \$M)		
revenue	9,790	36,287
COGS	5,369	27,815
GP	4,151	8,472
OPEX	3,244	5,370
EBITDA	1,464	4,003
EBIT	906	3,101
EBT	620	2,825
EBT/EBITDA	42%	71%
% rev in Mexico	98%	83%
SSS 15-21 avg.	4.7%	6.2%
rev CAGR 15-21	8.8%	6.9%
unit CAGR 15-21	6.2%	2.6%

COMMON SIZE		
revenue	100.0%	100.0%
COGS	57.6%	76.7%
GM	42.4%	23.3%
OPEX	33.1%	14.8%
EBIT	9.3%	8.5%



*RETAIL & Other EV = FEMSA total market cap – KOF stake – Heineken stake + Holding Net Debt 74
Data Source: own estimates, company reports, Refinitiv

TRANSFERRING LOGISTICS KNOW-HOW TO THE U.S.

FMX has built up internal logistics, warehousing and delivery capabilities for its bottling and OXXO divisions. Each c-store receives 2+ replenishments/week with small drop sizes from 21 own distribution centres. FMX tries to transfer this logistics know-how to a new business unit in the U.S. called Envoy.

- The Logistics & Distribution segment rests on two pillars: Solistica and Envoy. In FY21, L&D generated revenue of \$2.4 bn and \$0.2 bn in EBITDA (10.2% margin) which corresponds to 6% of FMX's total EBITDA

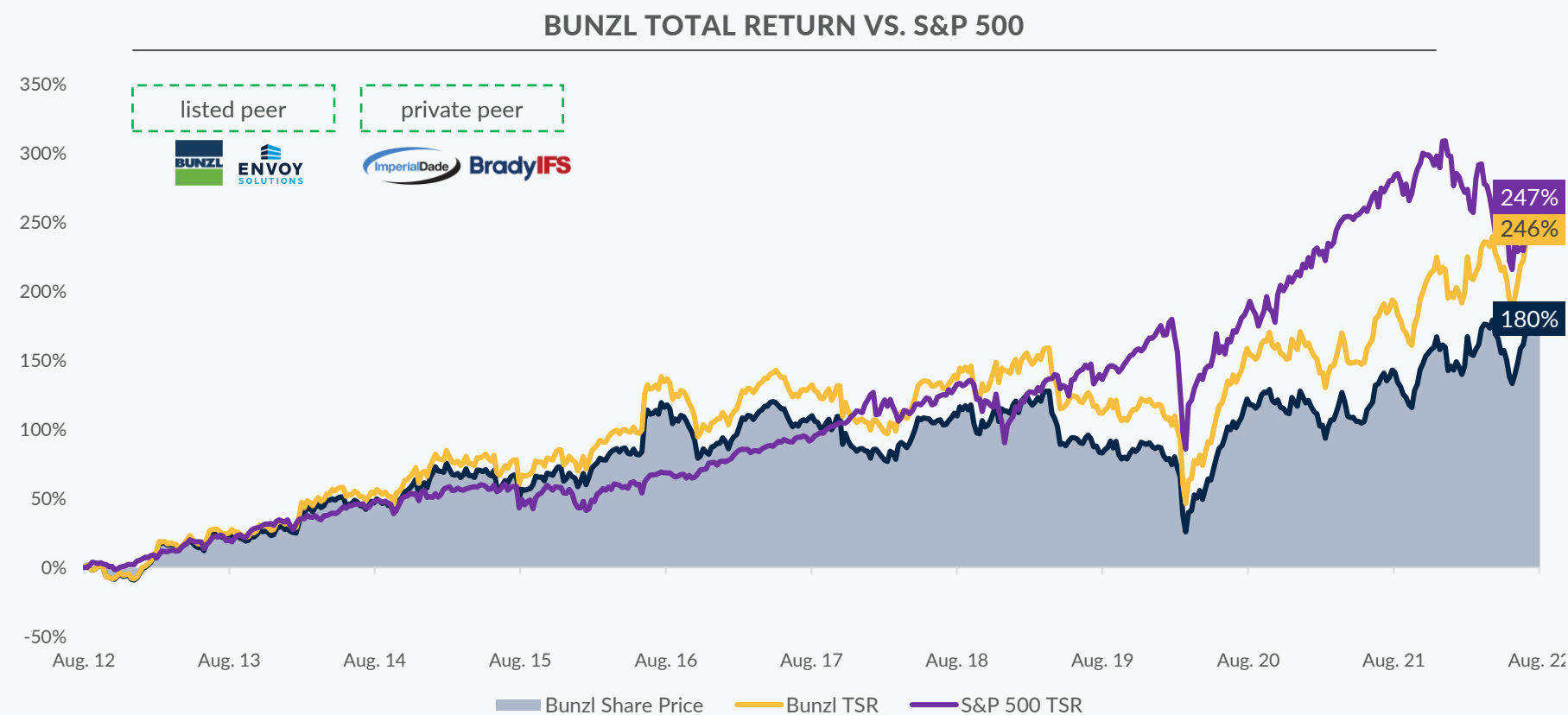
<div><div>% of L&D rev</div><div><div>43%</div><div></div></div></div>	<div><div>57%</div><div></div></div>
	<div><div>3PL</div><div>SPECIALIZED DISTRIBUTION</div></div>
Region	<div><div>LatAm</div><div>USA</div></div>
Key companies	<div><div>Solistica</div><div>North American, WAXIE, SEPG, Daycon, PJP, North Woods, Johnston, Next-Gen, [...] 19 companies in total for which FMX spent a total of \$2+ bn since 2020</div></div>
Strategy	<div><div>3PL offers transportation, warehousing and other services to mostly Fortune 500 companies. Employs >23k people, has 800k sqm of warehouse capacity and 6k trucks who reach 160k delivery points/week</div><div>FMX rolls-up regional suppliers of janitorial-sanitorial (short: jan-san), foodservice and packaging products hoping to 1) increase purchasing power vs. suppliers and 2) cross-sell to existing customers</div></div>
visualization	<div><div></div><div></div></div>

HOW MANAGEMENT DESCRIBES ITS PLANS FOR ENVOY

- “I mean, as you know, when we got into the segment, we were attracted by the dynamic of an industry that, I mean, contains the same as in the rest of our business, small drop sizes, a big product bundle that allows us to segment markets and obtain good results but also in an industry that was highly fragmented throughout the United States. Besides Envoy, there are another couple of platforms that are following the similar strategy. And we still believe that there is a long road ahead of consolidation as a lot of these regional distributors, both on the Jan-San side, the food service disposable side and the packaging side, are widely distributed across the United States with small distributors. **So we feel that there is a long way still ahead in terms of consolidation there. And that consolidation is usually immediately accretive as you can bundle on the supply side, bundle some of our supplier partners and create value relatively quickly there.** So we do – still do believe that the secular trends in the business can probably result in mid-single-digit growth for a number of years to come. And then if you add the potential for inorganic growth, this could continue to grow at mid-double-digit growth.” – Eugenio Garza y Garza, Q1/22 Earnings Call
- “**The whole strategy behind this is that as we're rolling up these companies, we're able to get significant synergies on the purchasing side** just by the scale that we've already accomplished. So we're serving the same customers with the same products that – at much higher margins and also bringing in different skill sets in terms of distribution, infrastructure, technology, et cetera, that can also adjust on the operating side, improve our margins. **So although we are paying multiples that – I mean, are usual for this kind of roll-ups in the U.S. and are higher than what we were used to when we were buying other kinds of assets in Latin America** because of the synergies we're able to underwrite these kinds of valuation and get our cost of capital within the first couple of years with very little risk in terms of integrating the synergies.” – Francisco Camacho Beltrán, Q3/21 Earnings Call

ENVOY'S PEER ACHIEVED DOUBLE-DIGIT IRR

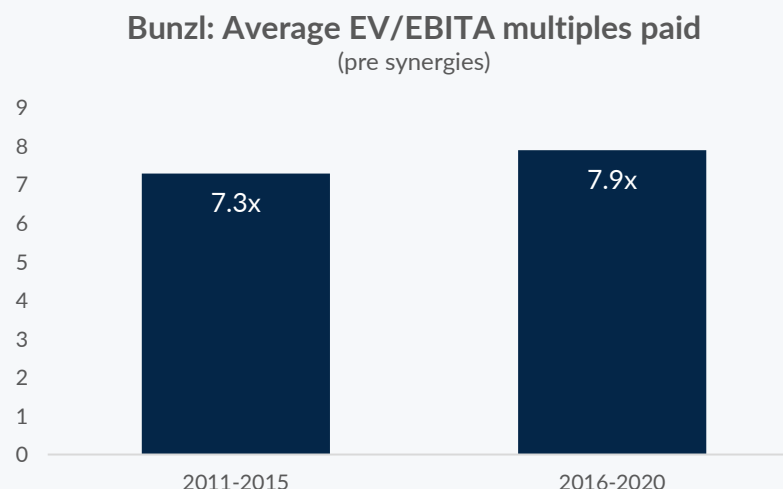
Bunzl (\$14 bn rev, \$0.7 bn NI) is the largest value-added distributor in its market sectors like grocery store supplies, foodservice packaging, catering equipment, cleaning products, personal protection equipment and disposable healthcare products. Bunzl can be seen as a direct peer to Envoy pursuing a similar strategy



INVESTOR REACTION ON ENVOY HAS BEEN MIXED

- If one follows FMX for some time, one witnessed investors are having mixed feelings about Envoy. **Where does their criticism stem from?**
- In March 2020, FMX announced its plan to consolidate U.S. distribution firms in jan-san, packaging and foodservice products by buying 89.5% of WAXIE and North American for \$942m. At the time of the acquisition, disclosure was very limited, but **today it appears that FMX paid roughly 32x EBT to initiate the Envoy Group***
- While the acquired firms in Envoy can reach up to 20% ROIC (Bunzl averages 16%), given the significant goodwill FMX pays for these takeovers, **FMX could be forced to transfer a large amount of future synergy value to sellers**
- It's relatively easy for me to understand how Bunzl can create double-digit returns spending 7-8x EV/EBITA pre-synergies on acquisitions but less so how FMX plans to do it paying >30x EBT

WAXIE/NA DEAL FY20*	\$M
total revenues acquired	717
EBT (after PPA)	33 (4.6% of rev)
FMX price paid for 89.5%	942
implied 100% tx value	1,047
implied EV/EBT	32x (3.1% yield)



*FY20 EBT is reconciled from [p. 188 of the Form 20-F](#) and could be negatively impacted by adjustments to depreciation or COVID related effects; Source: company filings

FUTURE M&A MULTIPLES MUST BE SCRUTINIZED

After WAXIE and North American, FMX added 17 companies to Envoy.* It seems competition for this kind of roll-up is intensifying as Bunzl also just had its 2nd most acquisitive year in history (14 deals, spent \$1.2+ bn in 20/21) and Imperial Dade (Bain/Advent) increased its sales from \$2 to \$5 bn since 2019 via M&A.

- When Daniel Alberto Rodríguez Cofré became CEO in January 2022, he stated his intention to deploy additional capital into Envoy. Looking forward, FMX has to present a clear logic how ROIC will surpass cost of capital as in my opinion takeover prices could become more demanding: *"Our operations are at different points in their development curve. They have different capital requirements and different growth rates and potential. Therefore, when it comes to FEMSA's capital allocation and deployment, we will privilege those operations that have the best opportunity to generate a positive spread between the return on capital and the cost of capital, obviously, adjusted for risk. Lately, this has meant driving the growth of our retail platform as well as our recent investment in the United States. We are convinced this is the right approach, and therefore, you should expect us to continue deploying our capital along those verticals."* - Daniel Alberto Rodríguez Cofré, Q4/21 Earnings Call
- *"Most recently, we were happy to announce an agreement to acquire Sigma Supply, an important distributor of packaging solutions and Jan-San products that fits and complements our footprint well, strengthening our presence across the South and opening the door into the key Texas market. Staying on this topic for a minute, you can think of Envoy Solutions as a 3-legged stool, where the legs are Jan-San, Food Service Consumables, and Packaging. Together, Jan-San and Food Service comprise what we call Facility Supplies. Each of these legs offers compelling opportunities for cross-selling and higher route density as most of our customers need and consume products from more than one [leg] in their operations. And often, they need all 3 and Packaging has the added benefit of generating high cash returns on capital. So Sigma Supply will be an important addition to our platform."* – Francisco Camacho Beltrán, Q1/22 Earnings Call

*that is: SEPG, Daycon, PJP, North Woods, Johnston, Next-Gen, Swish White River, Valley Janitor Supply, Weiss Bros., General Chemical & Supply, Bio-Shine, ATRA, Sigma Supply of NA, American Paper & Supply Company, NVISION, Hughes Enterprises, SunBelt Packaging 80

A BIG UNKNOWN FOR THIS CASE LONG TERM

M&A for Envoy is conducted by a local management team which has yet to prove itself. It didn't help the big picture that on 5th of July 2022 FMX announced another controversial deal: takeover of Swiss listed group Valora, which runs c-stores in Switzerland/Germany (e. g. k kiosk), for an EV of \$1.4 bn.

potential
LT Impact



Capital misallocation risk in case of lacking price discipline



CRITICISM OF THE POTENTIAL VALORA TAKEOVER

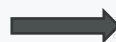
In my opinion, FMX's deal advisors cherry picked an adj. 9.4x EV/EBITDA multiple to make the deal appear more shareholder friendly. I'm no big fan of multiples ignoring the "D". For me, the tx looks like in the table below. FMX offers a 57% premium vs. 60-day VWAP (22x EBIT) for a business with a 2% growth target.

2020

WAXIE/NA

\$M

total revenues acquired	717
EBT 2020 (after PPA)	33 (4.6% of rev)
FMX price paid for 89.5%	942
implied 100% tx value	1,047
implied EV/EBT	32x (3.1% yield)



2022

VALORA

\$M

total revenues acquired	1,820
EBIT 2021 (after PPA)	32 (1.7% of rev)
price offer per share	270 (260 CHF)
implied 100% tx value	1,415
EV/EBIT 21	45x (2.2% yield)
EV/EBIT 22(e)	22x (4.4% yield)
FCF Yield 22(e)	3.2%

RISKS THROUGH ENTERING EUROPEAN FOOD SERVICE

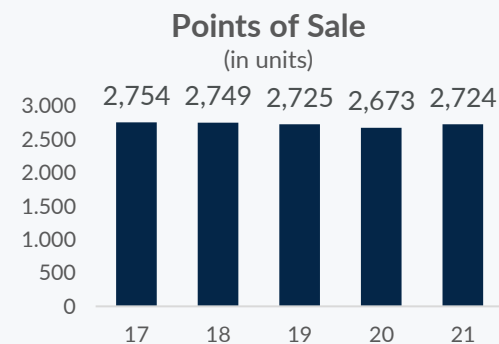
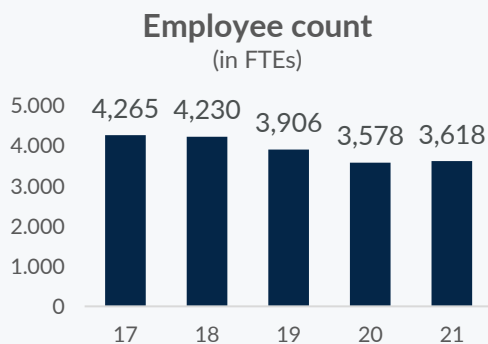
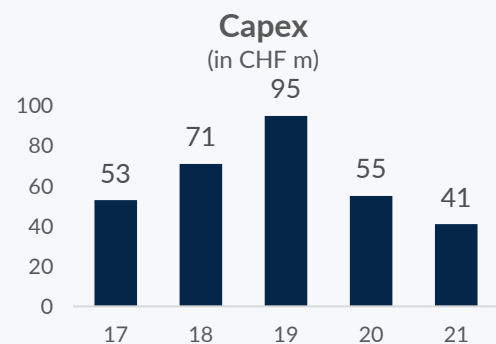
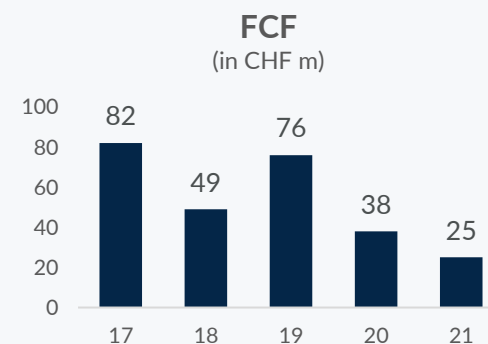
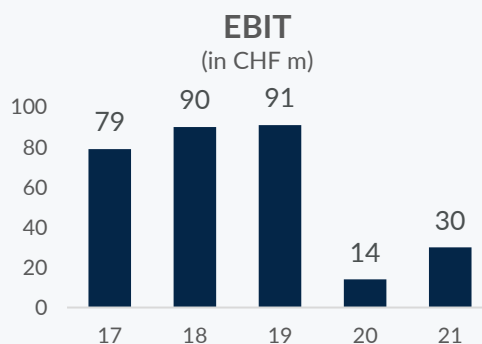
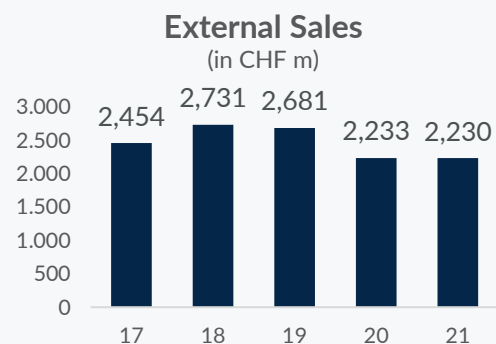
FMX can deploy capital into its LatAm retail assets at 20-27% ROIC. Valora's group ROCE came in at only 3% in FY21 and 8% pre pandemic. Especially the no-moat food service segment produces virtually no economic profit. Every investor in FMX could have bought Valora shares himself without any premium.



¹ Incl. agency; ² Valora's net revenue plus the sales generated by its contracted sales outlets; ³ Incl. franchisee personnel; ⁴ Foodvenience categories (Food, Services, Non-Food) excl. Tobacco, Press, Book; before full Covid recovery, full-year effect Back-Factory, and recent new partnerships with Moveri and Oel-Pool as well as recent Frittenwerk acquisition; ⁵ Acquired on 1st July 2022

VALORA KEY FINANCIALS

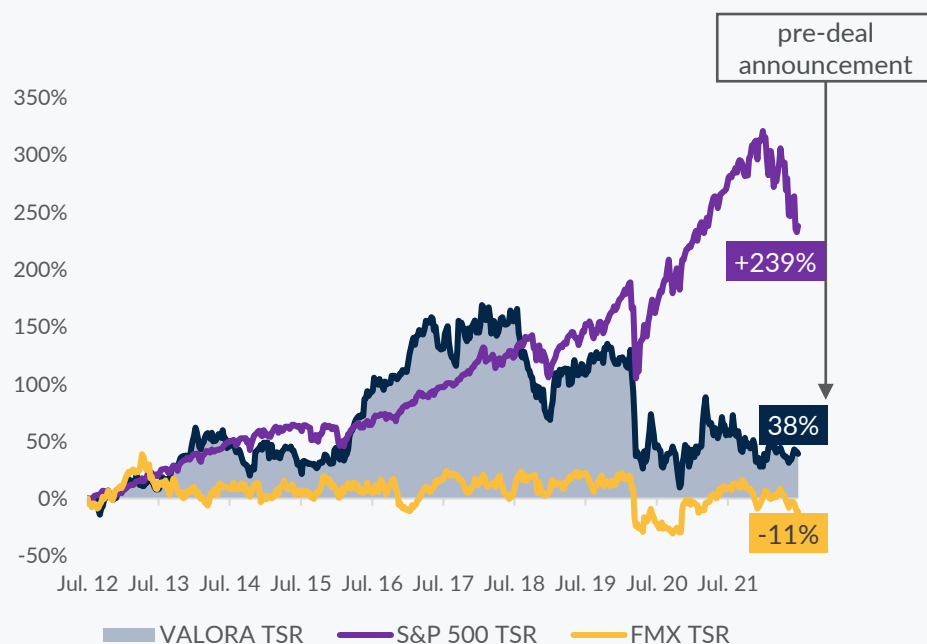
For an EV of 1.4 bn CHF, FMX shareholders will receive a company with the financial profile below. I think to be fair, one needs to consider that Valora should achieve higher EBIT in FY22 than FY21 given better traffic trends, nonetheless a part of their profitability seems to be structurally impaired due to WFH.



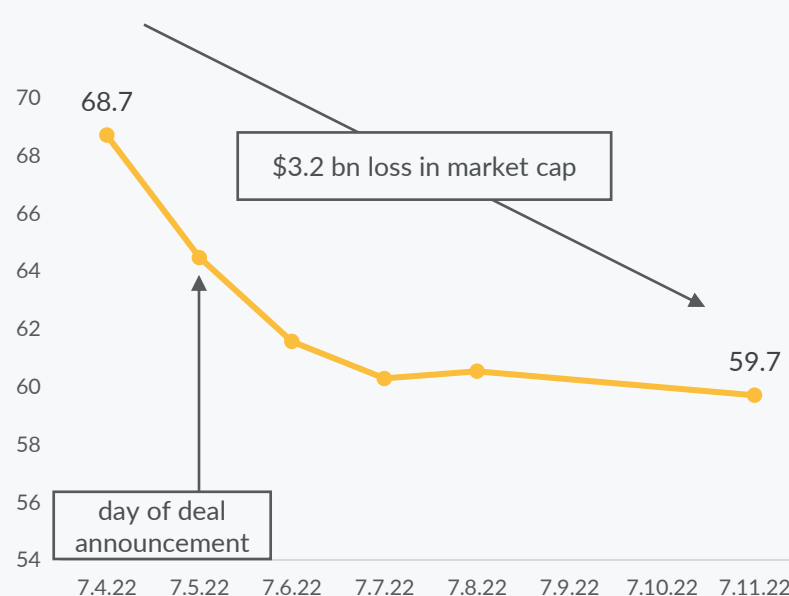
VALORA DIDN'T CREATE ANY REAL VALUE LONG TERM

After the publication of the Valora offer, FMX lost \$3.2 bn in market cap on a \$1.4 bn announced deal (in a benign market environment). The fairness opinion assumes a 6%* organic growth target out of thin air (the prior target was 2% per year until 2027). Valora's management delivered a low TSR of 3% p. a. historically.

TOTAL RETURN VALORA VS. S&P 500/FMX (LC)



FMX SHARE PRICE REACTION TO VALORA



















*one can compare Valora's just recently confirmed 2% long-term growth target until 2027 (postponed from 2025) [here](#) on page 21 with IFBC assuming Valora will easily surpass a 6% CAGR long term [here](#) on page 27; Data Source: Refinitiv 85

WHAT DOES FMX SEE HERE THAT INVESTORS DO NOT?

Valora's unattractive ROCE of 3% is dragged down by its Food Service segment with a ROCE of 1% while its c-stores historically achieved ~15% (incl. goodwill). Valora has 2,011 retail PoS and the c-store market in German speaking countries is fragmented (many single-store operators). FMX could try to consolidate it.

successfully consolidating the c-store market in the DACH region is the obvious upside risk

31.12.2021

	Format	 Schweiz	 Deutschland	 Luxemburg	 Österreich	 Niederlande	TOTAL
RETAIL	 kiosk	850	200	67			1 117
	 avec	177	3				180
	 Press & Books	22	154	5	9		190
	 cigo & Subformate		395				395
	 ServiceStore DB		104				104
	 U-Store		25				25
FOOD SERVICE	 BackWerk inkl. Back-Factory	1	365		24	37	427
	 Ditsch		192				192
	 Brezelkönig	56			3		59
	 Caffè Spettacolo	30		2			32
	 SuperGuud	3					3
TOTAL		1 139	1 438	74	36	37	2 724



City centers



Gas stations



Shopping malls



Transport hubs

High footfall
prime
locations

Introducing
new formats



avec



kiosk



Fully-baked
Cincinnati
2 lines
(+1 line to be
completed
in Q1 2023)



Fully-baked
Pre-proved dough
Oranienbaum
10 lines
(2 lines completed
in 2020)



Pre-proved dough
Emmenbrücke
1 line
(exclusively
Brezelkönig, no B2B)



Pre-proved dough
Mainz
3 lines

B2B
production
expansion

ANOTHER BIG UNKNOWN FOR THIS CASE LONG TERM

In stark contrast to the potential capital misallocation risk lies a significant upside risk in SPIN by OXXO.

potential
LT Impact

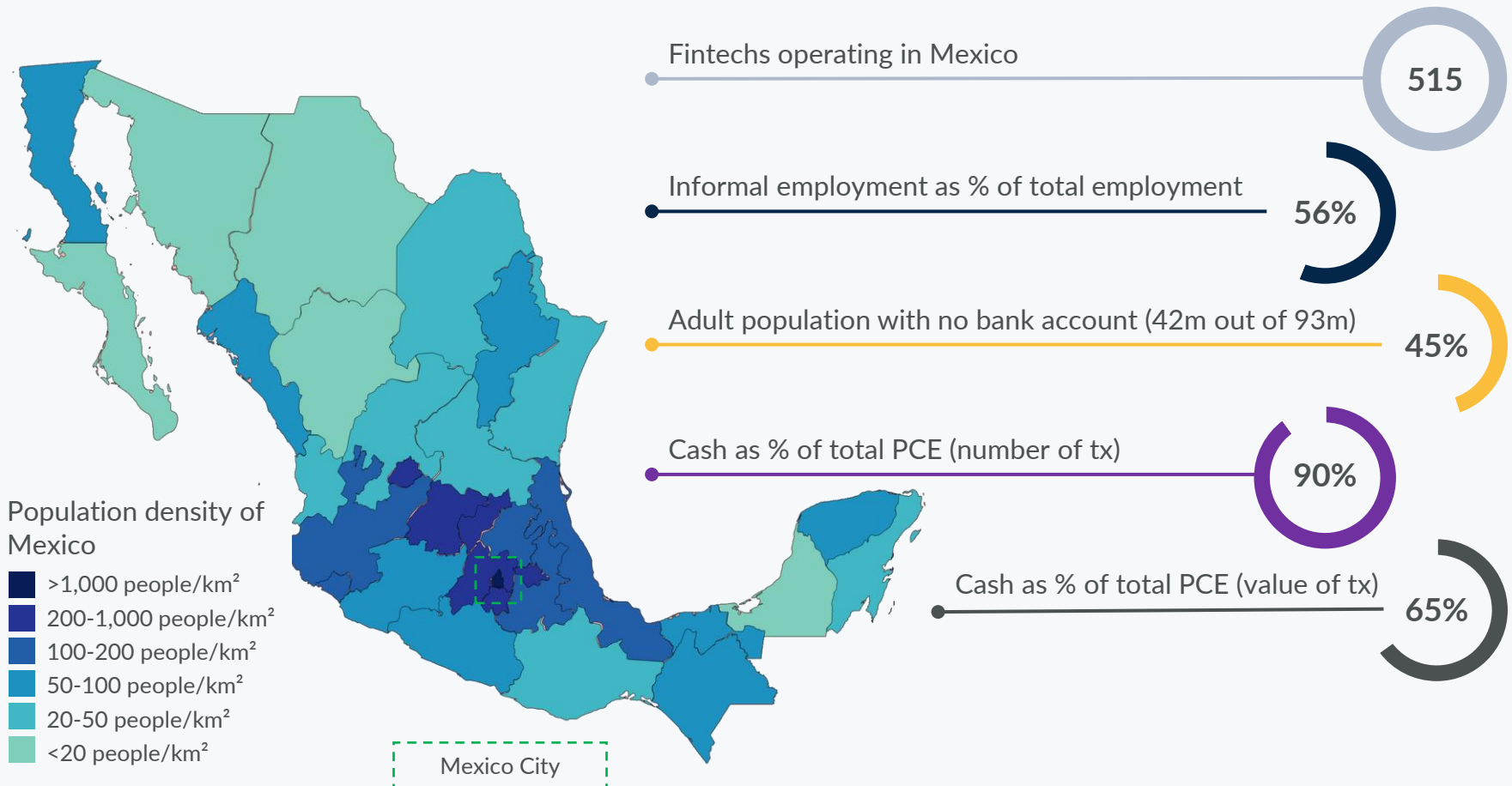


Long-term cash replacement opportunity in Mexico



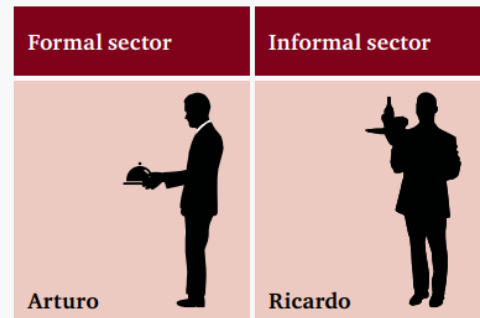
LARGE POTENTIAL OF BANKING THE UNBANKED

Mexico is a medium densely populated country with 66 people/km² (USA: 36/GER: 240). The economically active population is 59m, of which the majority works informally (56%). 42m people or 45% of the adult population is unbanked (huge potential for fintechs/neobanks). To put it simply, Mexico still runs on cash!



TWO MEXICOS: DEVELOPED VS. INFORMAL

Much has been written about the two different Mexicos. The informal sector represents 56% of total employment. Informal workers evade taxes and don't pay social security contributions. Their gross salary is lower, but on a net basis their earnings power is comparable to employees in the formal sector.



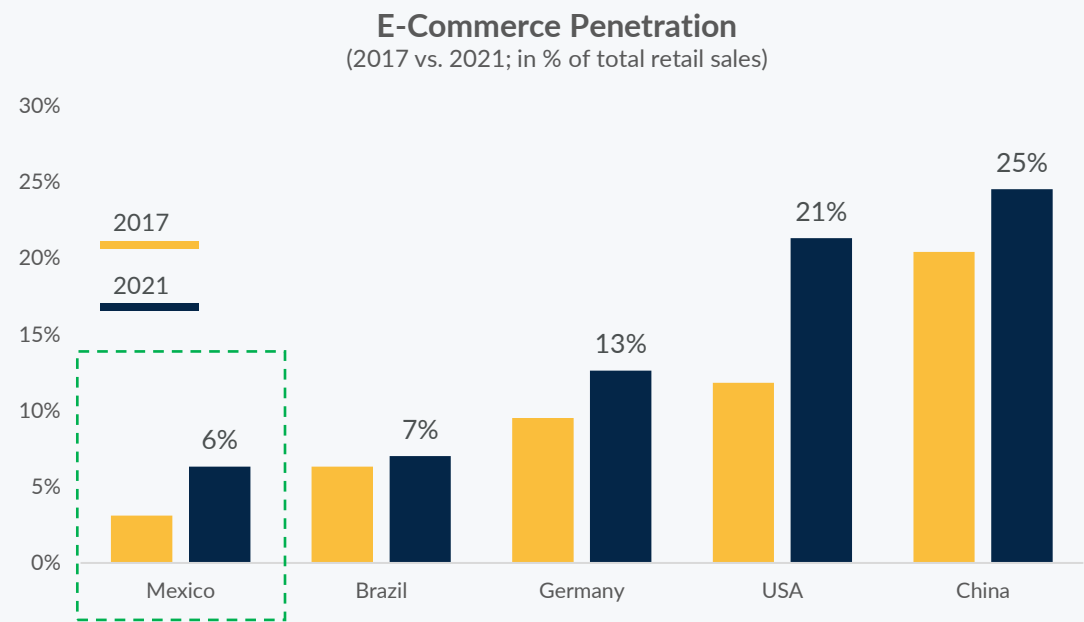
Consumer profile	Age and gender	35, Male	35, Male	Identical profile, would likely be attracted to similar selling propositions
	Job	Restaurant waiter	Restaurant waiter	
	Household structure	Married with a child	Married with a child	
Earning power	Gross annual salary (US\$)*	8,800	5,808	Comparable earning power
	Less: Income tax (~17%)	1,145	0	
	Less: Social security contribution (~9.23%)	812	0	
	Net income	6,842	5,808	
Obligations and rights	Payment of tax	Yes	No	Unequal rights. Limited access to credit affects purchasing power in the informal market
	Access to credit	Yes	Limited	
	Health insurance	Yes	No	
	Employment contract and rights	Yes	No	

HOW FINTECHS TRY TO WIN MARKET SHARE

- **1) Better service:** Some banks in Mexico are known for notoriously long waiting lines and a low number of branches/ATMs. While Mexico's GDP per capita is 20% higher than Brazil's, Brazil has 3x the number of bank branches per 10,000 people. **In Mexico, the National Banking and Securities Commission (CNBV) estimates that there are a total of 43,397 physical access points to make payments or initiate transfers of which OXXO represents a leading 46%.** With longer opening hours and shorter waiting times, OXXO established a solid value proposition in the offline world, which can help to jumpstart its online wallet
- **2) Increase access to credit:** Mexico has one the largest informal workforces in LatAm and one of the lowest credit penetration rates. **A recent study from the central bank of Mexico finds that only 11%/26% of people use credit/debit cards.** Informal workers do not report their earnings to tax authorities and therefore can't establish a formal credit history to apply for classic bank loans. Members of Mexico's informal workforce include e. g. 25% of all taxi drivers and most construction workers. These people often save in the form of cash stored at home foregoing interest income. **A mobile wallet with lots of transaction data could naturally venture into providing access to credit, investments and insurance** to informal workers
- **3) Increase P2P transfers:** Splitting a restaurant bill in Germany is often done via PayPal. In Mexico, I encountered no convenient way for this simple use case as network effects for P2P solutions are not yet thick enough. **International mobile wallets used for P2P often rely on card and bank networks, which don't cover the 45% unbanked adult population in Mexico. The P2P space is clearly up for grabs!** Should a leading mobile wallet emerge, domestic e-commerce could get an additional boost from it

E-COMMERCE COULD PROFIT FROM A MAJOR WALLET

E-Commerce in Mexico is already growing fast from low base and playing catch up to developed markets.



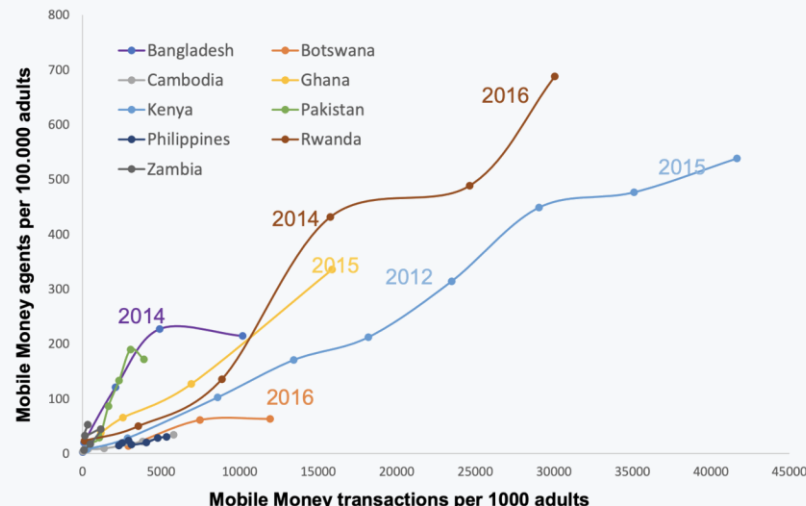
IN EMERGING MARKETS, CICO NETWORKS ARE CRUCIAL

Mobile wallets for underbanked people in emerging markets have to solve for the fundamental question of how to inject money into a new digital platform. Offline cash-in/cash-out (CICO) agent networks often play an important role in solving this issue. Usually, fintechs and neobanks suffer from disadvantages here.

- „We approach this with a structural advantage that is unique to OXXO, which is the 19,000 plus physical stores where people are in terms of putting cash in and out of a new wallet, the stores are obviously very, very relevant. Also the fact that the OXXO brand already is a very broadly used and much trusted platform for cash payments today. And so I think as the Mexican consumer gradually embraces cashless and digital transactions that we can leverage the strength of our brand and the ubiquity of our store network.“ – Juan Fonseca, Q1/20 Earnings Call

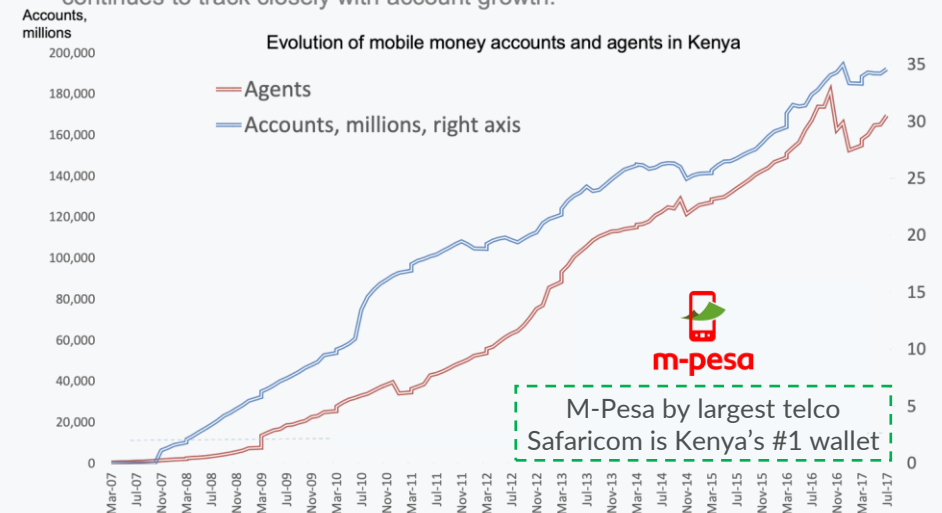
Financial services use without proximity is rare

In 9 leading DFS markets, mobile money use tracks closely with agent proximity



Even in Kenya, demand for agents is still growing

Although almost 70% of the population already uses mobile money, agent growth continues to track closely with account growth.



OXXO'S CICO NETWORK = A FIRST MOVER ADVANTAGE

In payments, the importance of trust is often underestimated. Many Mexicans trust OXXO's brand and store network, while the same can't be said about some digital-only fintechs. Nubank recently admitted in an internal memo that OXXO *"acquiring customers physically has seen higher and faster customer growth."**

- In a first step, financial services at OXXO became a competitive differentiator vs. other c-stores and mom & pops. While the latter often can't offer financial services because they are not registered banking agents, **larger c-stores like 7-Eleven mimic OXXO's offering but suffer from store density disadvantages.** OXXO can demand higher fees than 7-Eleven and **financial services may represent up to 12% of OXXO's EBIT.** Sacrificing a part of that profit (temporarily) might surface as a dilemma concerning a faster SPIN rollout
- OXXO has direct control on its staff to sell and service SPIN, **while competitors must rely on third-party offline cash-in/cash-out agents.** This comes naturally to large telco firms but less so for neobanks. Controlling a large CICO network has proven to be crucial for a better financial inclusion in many emerging markets (e. g. M-Pesa in Kenya). **Incentivizing third-party store managers to service users of a new wallet is hard as offline store owners will ask:** „*will I make enough money from this?*“, „*how high are additional cash handling expenses?*“, „*what do I have to invest in terms of hardware costs and connectivity to banks?*“
- A case in point is [Tigo Money](#) in Paraguay (population: 7m). **Based on its leadership in mobile subscriptions, it already had a large partner CICO network in place (53% of all domestic banking access points vs. 46% for OXXO in Mexico) that it leveraged to introduce its mobile wallet.** Telco industry organization GSMA highlights the following finding concerning the rise of Tigo: *"While a number of Mobile Money programs have struggled to keep their agents active and appropriately incentivized, Tigo Paraguay has built a network of motivated agents and dealers. This stems from management's perspective that **there are two customers in the Mobile Money game – the users of Mobile Money and the agents – and both parties need to be satisfied.**"*

ADJACENT TO SPIN FMX LAUNCHED PREMIA

Premia customers earn rewards shopping at FMX RETAIL. The average Premia customer transacts at ~P\$80 per ticket at OXXO, much higher than non-Premia cohorts. Different from Saldazo, FMX gets much more granular customer data from Premia with the possibility for targeted advertising and higher loyalty.



OXXO will play an important role **enabling financial inclusion** in Mexico, helping a large number of under-banked consumers **adopt digital payments** and **obtain light financial services** for the first time.



Now adding **+1.9 million accounts per month**, our loyalty program **OXXO Premia** rewards customers and **drives engagement and sales**, while **generating valuable data** that can be monetized in various ways.



Spin by OXXO, our digital wallet app launched in 2021, is currently adding customers at a rate of approximately **300,000 per month**, reaching **+2.7 million users¹**.



Other developing elements of the ecosystem include **OXXO Cel**, our MVNO, as well as opportunities for **quick commerce** and **fulfillment partnerships**.

1.- As of June 2022.

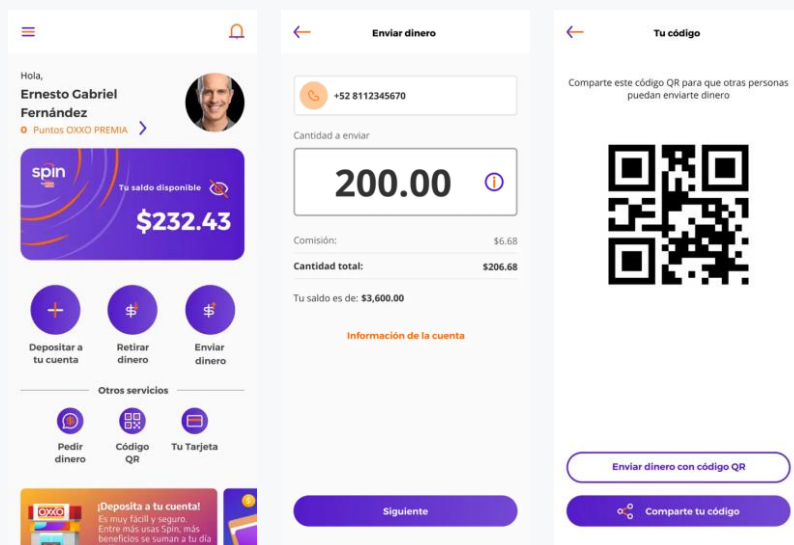
SPIN PLANS TO LEVERAGE P2P AS A TROJAN HORSE

SPIN can be used as a stand-alone app or in combination with a VISA card. It allows users to do the same things that could be done in store: pay for subscription services like Netflix or Spotify, bill payments, but from the user's home via smartphone. Unbanked customers can inject money into SPIN through an OXXO.

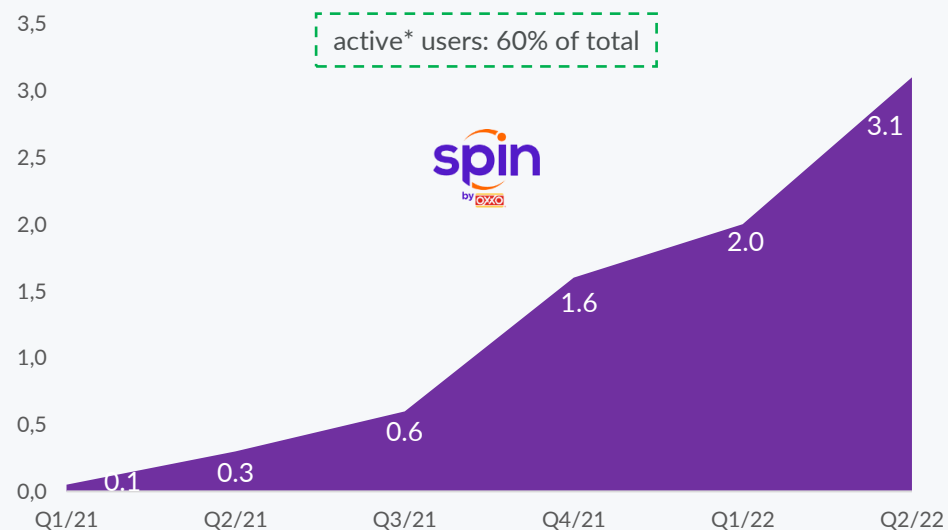
- „What it allows you to do basically is I mean to **do the same thing that you would have done in the stores, I mean, pay for services, peer-to-peer, paying for airtime, et cetera, but do it on your phone, be able to charge your spin card through the OXXO stores and withdraw money from the OXXO stores as well.** And then hopefully, as that takes off, we should be able, as we attract more customers into that platform, be able to add other belts and whistles to the product.” – Eugenio Garza y Garza, Q4/20 Earnings Call
- “SPIN is capturing the marginal consumer that otherwise would've not done the transaction at the store. So it's capturing that marginal consumer and without changing our pricing architecture for the services segment, it is making our market in that category, I think, wider. The more that we start to put functionality into this Spin product, stuff such as remittances from the US, **eventually a partnership on credit, we believe that the use case for the product will start to become, I think, more and more compelling.** And the fact that you are also earning premier points by using the Spin product is allowing us to do the cross-selling of the services category along with the other categories at OXXO.” – Eugenio Garza y Garza, Q1/22 Earnings Call
- „Right now, the average Spin user is transacting about 10 times per month, which is up significantly from where our early cohorts were. **And I think it's basically just the network effect. As new more people become Spinners, the peer-to-peer function of sending money across peers is starting to become a lot more valuable.** So more and more, we are seeing that part of the value proposition play out in terms of just the sheer network effect.” – Eugenio Garza y Garza, Q1/22 Earnings Call

SPIN IS RAMPING UP AT A FAST CLIP

OXXO is already the preferred offline payment method for online purchases and can build on its habit/trust advantages as well as its leading CICO network. But success for SPIN is *far* from certain! If SPIN wants to become relevant, it has to get a (P2P) network effect before neobanks get more distribution



SPIN total registered users



UNFORTUNATELY, COMPETITION NEVER SLEEPS...

- In FY21, BNPL provider **Kueski Pay** raised >\$300m to increase its footprint in consumer lending in LatAm. It launched its BNPL product in Mexican brick-and-mortar stores in Q4/21 and is now present at over 700 merchants throughout Mexico and growing rapidly. Sensor Tower ranked them as the top #14(!) downloaded app in Mexico on Android in mid July* (that's *before* Spotify, Snapchat, Roblox or Facebook). Kueski counts >1m users in Mexico vs. 2.7m for NuBank (+200k/month) and 3.1m for SPIN (+300k/month)



For consumers

For merchants

Press

Sign Up

Log In



What is Kueski Pay?

**Sell today, receive your money
and your customers will pay later.**

It is the financial solution that gives your customers an option to buy a product today and pay for it later. The best part is that they can pay fortnightly and without needing a card.

Connect with new customers, improve your payment facilities, increase your average ticket and give them the opportunity to enjoy their items now and pay for them later.

Start now

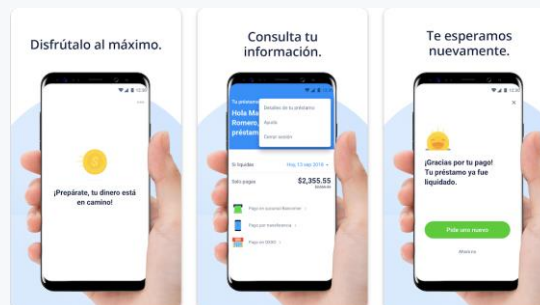
*however, download numbers came down in August with Kueski Pay not showing up in the top50 anymore; Image Source: Kueski Pay 98

...AND THE OVERALL RACE IS CLEARLY HEATING UP

Rappi



kueskiPay.



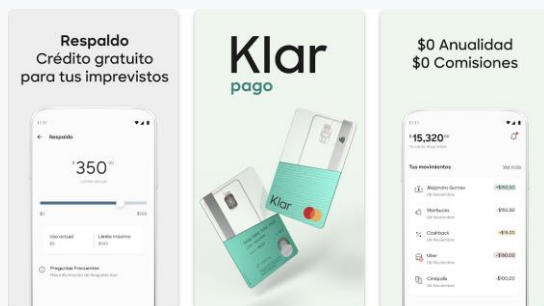
mercado pago



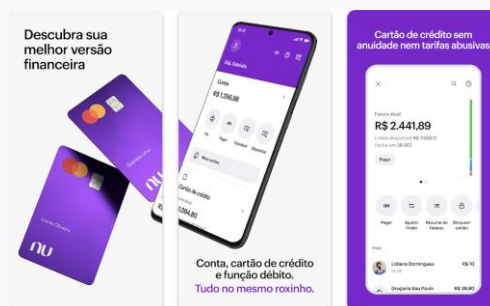
„While this space is likely to attract broader competition by both multinational digital operators and regional delivery providers, we see OXXO as having a head start and a critical competitive advantage coming from its unrivaled store densities, wide product offering and strong consumer awareness and trust which should translate effectively in a parallel digital presence. The OXXO App could also serve Mexican consumers in new ways, such as delivering quick lunch, food, breakfast.“

– GS Research Division

Klar



nu



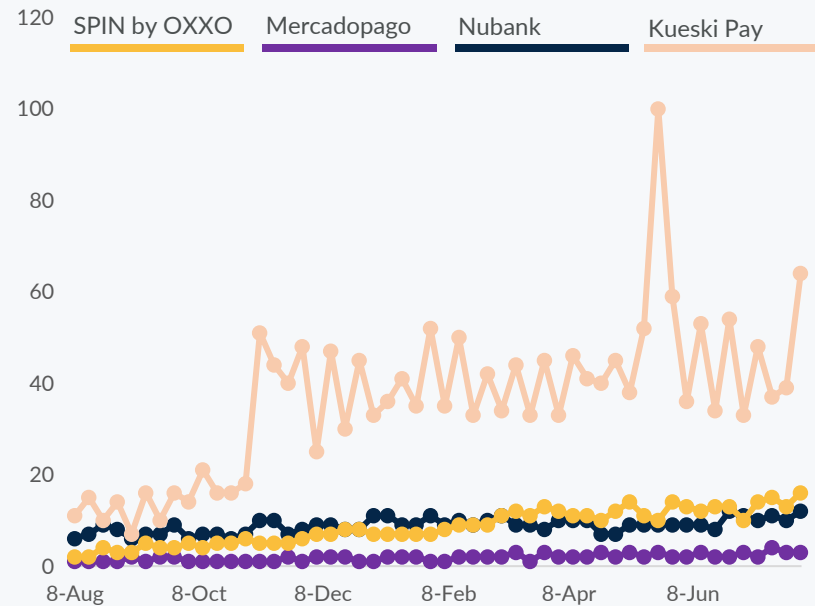
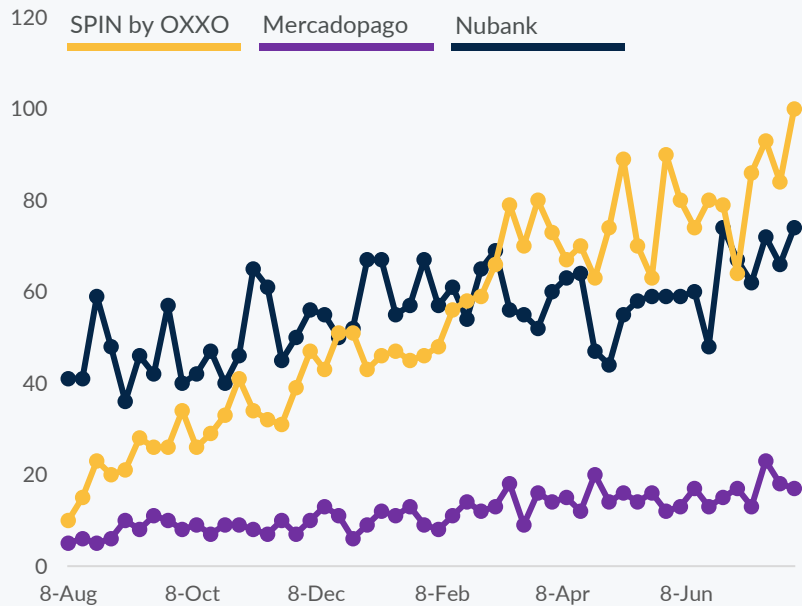
hey,



MOMENTUM POSITIVE FOR SPIN, SPIKES FOR KUESKI

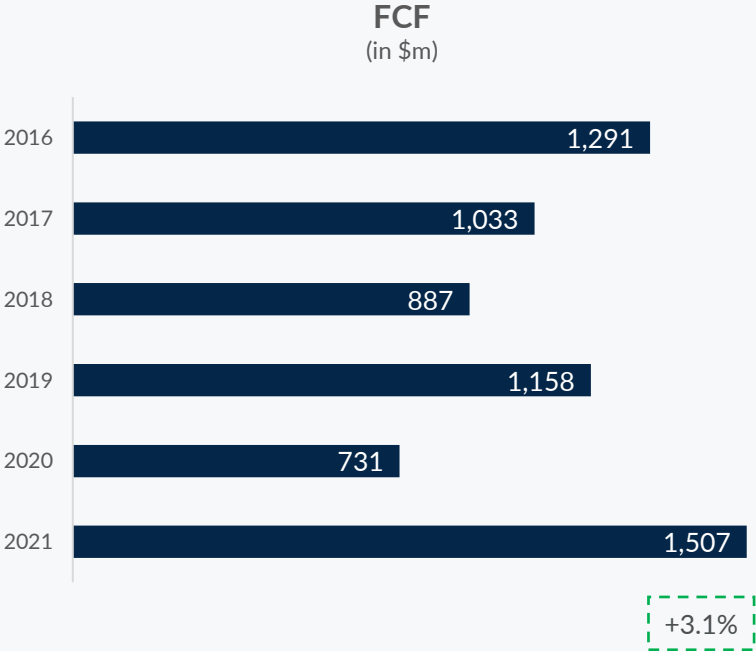
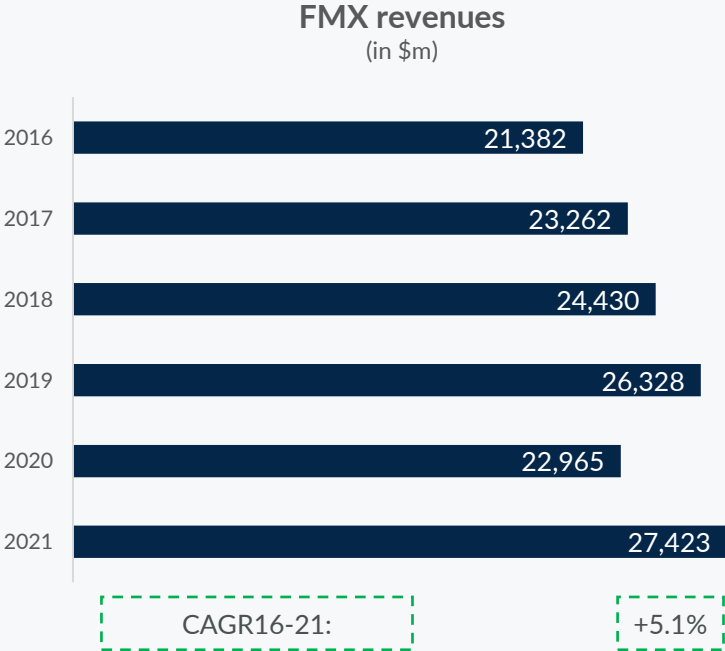
Google shows robust search trends for SPIN and Sensor Tower ranks it consistently as the ~#50 most downloaded app on Android in Mexico. For comparison: Venmo/PayPal are often ~#60/#40 in the U.S.

SEARCH INTEREST TRENDS IN MEXICO



OVER THE LAST 5 YEARS, FMX GREW REVENUE MSD

With KOF and HEIA (non-consolidated) achieving almost no growth, FMX RETAIL with HSD growth drove a consolidated revenue CAGR of 5.1% from FY2016 to 2021. Going forward, I'd expect a similar trajectory.



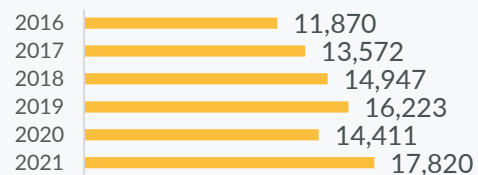
FMX FINANCIAL KPIS

FINANCIALS IN \$M	FY16	FY17	FY18	FY19	FY20	FY21	CAGR \$	CAGR P\$
USD/MXN	18.68	18.91	19.23	19.25	21.47	20.28		
net revenue	21,382	23,262	24,430	26,328	22,965	27,423	5.1%	6.8%
thereof: RETAIL & Other	11,870	13,572	14,947	16,223	14,411	17,820	8.5%	10.3%
thereof: KOF	9,512	9,690	9,483	10,104	8,554	9,604	0.2%	1.9%
gross profit	7,932	8,571	9,110	9,949	8,835	10,536	5.8%	7.6%
OPEX	5,929	6,442	6,948	7,499	6,902	7,973	6.1%	7.9%
EBIT	2,003	2,129	2,162	2,450	1,933	2,563	5.1%	6.8%
NI (reported)	1,131	2,161	1,173	1,075	-90	1,405	4.4%	6.2%
FCF	1,291	1,033	887	1,158	731	1,507	3.1%	4.9%
GM	37.1%	36.8%	37.3%	37.8%	38.5%	38.4%		
OPEX %	27.7%	27.7%	28.4%	28.5%	30.1%	29.1%		
EBIT margin	9.4%	9.2%	8.9%	9.3%	8.4%	9.3%		
NI margin	5.3%	9.3%	4.8%	4.1%	(0.4%)	5.1%		
FCF margin	6.0%	4.4%	3.6%	4.4%	3.2%	5.5%		
RoE	11.2%	10.9%	9.4%	9.6%	5.6%	11.0%		

SEGMENT OVERVIEW

RETAIL & Other rev

(in \$m)

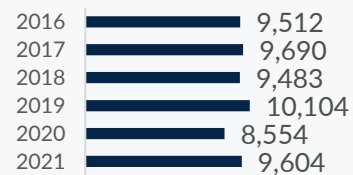


CAGR16-21:

+8.5%

KOF rev

(in \$m)



+0.2%

Heineken rev

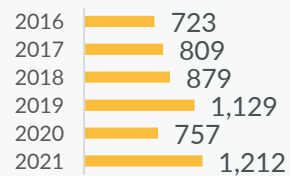
(in \$m)



+2.4%

RETAIL & Other EBIT

(in \$m)

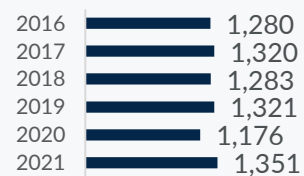


CAGR16-21:

+10.9%

KOF EBIT

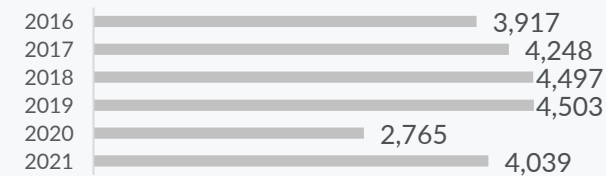
(in \$m)



+1.1%

Heineken EBIT

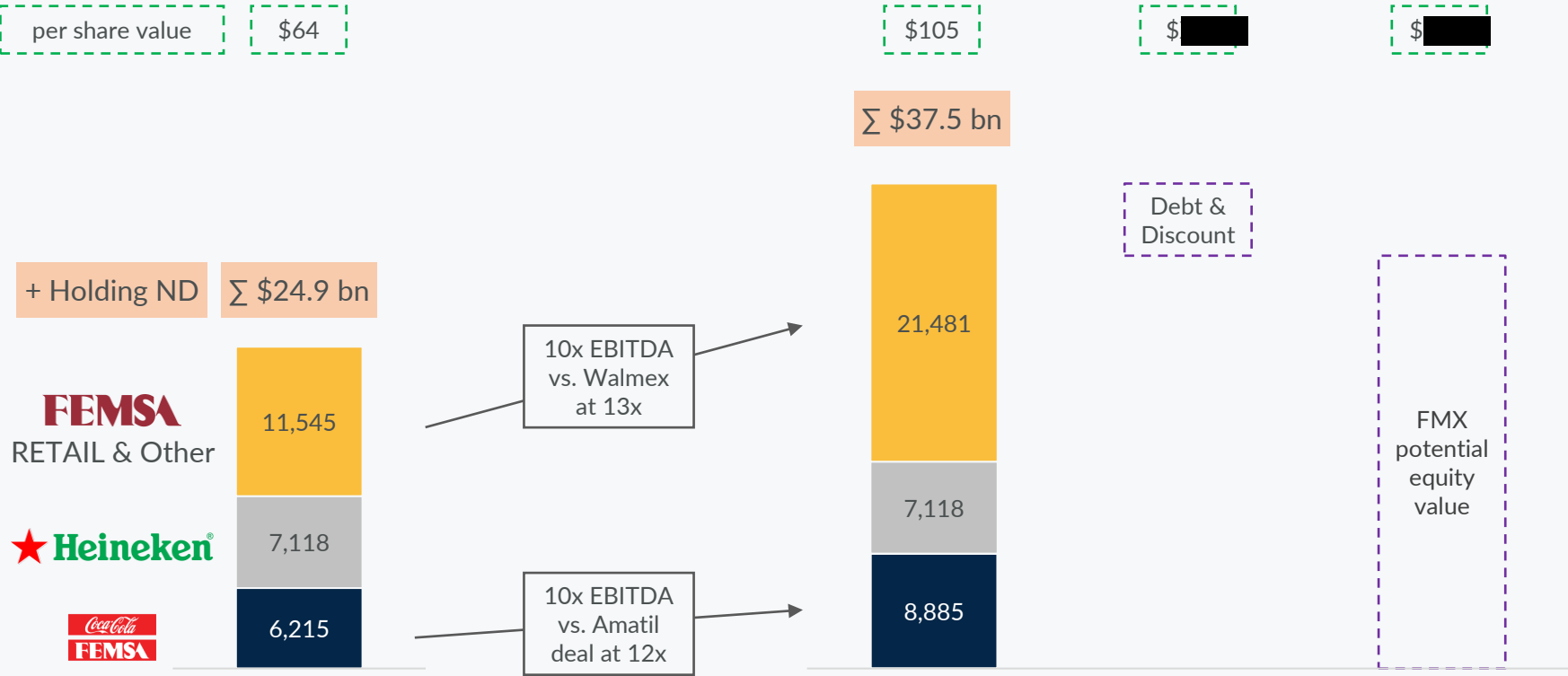
(in \$m)



+0.6%

SOTP OVERVIEW

In 2014, ATD paid \$350m for 878 low performing Extra stores in Mexico (later rebranded as Circle K). This yardstick would indicate a floor value for OXXO ~\$8.5 bn vs. ~\$11 bn for all of FMX RETAIL currently (incl. \$2+ bn for Envoy). A consensus SOTP approach would imply higher target multiples for KOF and RETAIL.



[redacted] *redacted on purpose due to compliance reasons

Source: own estimates 105

DISCLAIMER: This presentation is for informational purposes only. It is no investment advice and no financial analysis.

A POSSIBLE SCENARIO EXCLUDING M&A, SPIN AND FX

POSSIBLE SCENARIO (IN \$ M)	FY22	FY32	CAGR	
net revenue	31,957	55,729	5.7%	MSD
thereof: RETAIL	17,446	37,603	8.0%	HSD
thereof: KOF	11,005	13,415	2.0%	LSD
thereof: L&D	3,506	4,712	3.0%	LSD
EBIT	2,990	5,518	6.3%	MSD
<i>EBIT margin consolidated</i>	9.4%	9.9%	-	
<i>EBIT margin RETAIL</i>	7.9%	9.4%	-	
<i>EBIT margin KOF</i>	13.3%	13.3%	-	
<i>EBIT margin L&D</i>	4.2%	4.4%	-	
share of Heineken profit	400	564	3.5%	LSD
NI (controlling interest)	1,476	3,302	8.4%	HSD
holding net debt	1,809			
exit multiple core business	-	x		

*redacted on purpose due to compliance reasons

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BULLS SAY / BEARS SAY

To conclude: I think FMX owns one of the best retail assets in LatAm with sizable growth potential. In my opinion, the biggest risk for the case is a redeployment of the Heineken stake into a low IRR alternative.

- (+) FMX is still run and controlled by its founding families and management has an adequate understanding of their fiduciary duties. They attracted Michael Larson from Bill Gates' family office and Robert Denham from the Buffett-Munger network to the board. After a decade of the stock going nowhere, the board is finally taking their underperformance more seriously and wants to present a potential value unlock soon
- (+) OXXO's one of the highest ROIC retail assets in Mexico with a sizable LatAm expansion opportunity
- (+) While success for SPIN is far from certain, OXXO's leading CICO network is a significant advantage
- (-) On a consolidated basis, FMX is only a 10%+ RoE business growing MSD in revenue. That is hardly a set up for hall of fame returns, especially should FX remain a headwind for foreign investors
- (-) M&A outside LatAm can be an opportunity but also a meaningful risk for owners
- (-) Except for a COVID catch up in CY22, KOF and HEIA are addressing saturated markets with low volume growth. Therefore, it's primarily the retail segment that has to push the entire company forward

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