

EL REY DE TORTILLAS

Gruma, S.A.B. de C.V. (“Gruma” or “the Company”) is the world’s largest tortilla producer, headquartered in Nuevo Leon, Mexico and listed on the Bolsa Mexicana. As of April 21st, 2021, Gruma’s stock price was MXP\$247.78 and it sported a market cap of ~MXP\$97,600M, translating to ~US\$4.9B. Gruma reports its financials in Mexican Pesos and the rest of this pitch will reference Gruma’s financials in MXP. Before diving into the thesis, it is important to understand Gruma’s different business units. Gruma operates primarily in four segments: (1) Gruma USA, (2) GIMSA, (3) Gruma Europe and (4) Gruma Centroamerica. Since 2015, Gruma in its quarterly earnings has provided a breakout of business segment performance that excludes currency translation effects, and I have combined currency translation effects with other sales (mainly Gruma Oceania). Please see **Exhibit 1** for sample products/brands sold by segment.

- 1. Gruma USA** – produces/sells both tortillas and corn flour. **Gruma USA generated 58%/69% of total 2020 revenue/EBIT excluding currency translation effects.**
- 2. GIMSA (Gruma Mexico)** – only produces/sells corn flour in Mexico. GIMSA generated 28%/25% of total 2020 revenue/EBIT excluding currency translation effects.
- 3. Gruma Europe** – produces/sells both tortillas and corn flour/grits. Gruma Europe generated 7%/1% of total 2020 revenue/EBIT excluding currency translation effects.
- 4. Gruma Centroamerica** – produces/sells both tortillas and corn flour. Gruma Centroamerica generated 7%/5% of 2020 revenue/EBIT that excludes currency translation effects.

Gruma USA						
	2015	2016	2017	2018	2019	2020
Volume	1,341	1,374	1,387	1,307	1,441	1,507
Growth Y/Y		2.5%	(0.5%)	2.2%	3.1%	4.6%
Revenue	41,092	41,824	40,471	41,305	41,502	48,956
Growth Y/Y		1.8%	(3.2%)	2.1%	0.5%	18.0%
Gross Profit	17,275	17,003	17,676	17,589	17,593	21,126
Margin	42.0%	42.8%	43.7%	42.6%	42.4%	43.2%
EBIT	4,975	5,864	5,696	5,912	5,804	7,104
Margin	12.1%	14.0%	14.1%	14.3%	14.0%	14.5%

GIMSA						
	2015	2016	2017	2018	2019	2020
Volume	1,847	1,564	1,622	1,883	1,746	1,812
Growth Y/Y		(15.3%)	3.8%	3.8%	3.8%	3.8%
Revenue	15,871	17,866	19,508	20,508	21,585	23,168
Growth Y/Y		12.6%	9.2%	5.1%	5.3%	7.3%
Gross Profit	4,871	4,947	5,335	5,816	6,180	6,666
Margin	30.7%	27.7%	27.3%	28.4%	28.6%	28.8%
EBIT	2,205	2,274	2,293	2,409	2,549	2,580
Margin	13.9%	12.7%	11.8%	11.7%	11.8%	11.1%

Gruma Europe						
	2015	2016	2017	2018	2019	2020
Volume	404	370	374	340	395	404
Growth Y/Y		(8.4%)	1.1%	(9.1%)	16.2%	2.3%
Revenue	5,807	5,484	5,373	5,528	5,574	5,567
Growth Y/Y		(5.6%)	(2.0%)	2.9%	0.8%	(0.1%)
Gross Profit	1,427	1,280	1,332	1,229	1,342	1,363
Margin	24.6%	23.3%	24.8%	23.5%	24.1%	24.5%
EBIT	181	160	194	179	213	111
Margin	3.1%	2.9%	3.6%	3.2%	3.8%	2.0%

Gruma Centroamerica						
	2015	2016	2017	2018	2019	2020
Volume	199	203	195	210	213	243
Growth Y/Y		2.0%	(3.9%)	7.3%	1.4%	14.1%
Revenue	4,057	4,639	4,533	4,536	4,603	5,609
Growth Y/Y		14.3%	(2.3%)	1.4%	0.2%	21.9%
Gross Profit	1,514	1,809	1,704	1,600	1,616	1,907
Margin	37.3%	39.0%	37.6%	34.8%	35.1%	34.0%
EBIT	369	426	320	376	379	501
Margin	9.1%	9.2%	7.1%	8.2%	8.2%	8.9%

Other / Currency Translation						
	2015	2016	2017	2018	2019	2020
Volume	39	48	34	43	25	(20)
Revenue	(8,548)	(1,606)	696	2,104	4,124	7,802
Gross Profit	(2,746)	117	730	1,390	1,986	3,780
EBIT	(362)	399	816	578	337	1,052

Gruma Total						
	2015	2016	2017	2018	2019	2020
Volume	3,830	3,960	4,009	4,054	4,116	4,233
Growth Y/Y		3.4%	1.2%	1.1%	1.5%	2.9%
Revenue	58,279	68,207	70,581	74,041	77,385	91,102
Growth Y/Y		17.0%	3.5%	4.9%	4.5%	17.7%
Gross Profit	22,341	26,056	26,777	27,694	28,717	34,842
Margin	38.3%	38.2%	37.9%	37.4%	37.1%	38.2%
EBIT	7,268	8,123	9,319	9,454	9,292	11,348
Margin	12.6%	13.4%	13.2%	12.8%	12.0%	12.5%

Investment thesis

- 1. Underappreciated runway for growth in US:** Gruma’s tortilla brand, Mission Foods, is a “crown jewel” asset that has led Gruma to achieve ~40-50% of total US tortilla production/sales market share. Strong secular tailwinds like higher-margin “healthier for you” eating, the proliferation of Mexican cuisine, and increased cooking at home should lead to better than historical revenue growth and profitability.
- 2. GIMSA is not truly a “commodity business”:** GIMSA is incorrectly valued as a “commodity business” and fears about GIMSA’s profitability declines are overblown. GIMSA dominates the Mexican nixtamalized corn flour market with 74% market share and minimal capex needs, leading to average free cash flow margins of 13.6% from 2015 - 2019. This large FCF generation will continue even if GIMSA’s profitability is stagnant and this FCF is being invested at higher returns in the US.
- 3. Discount to peers will erase over time:** Gruma trades at a 38% EV/EBIT discount to its US peers even though it generates ~2x their ROIC’s and a majority of its revenue comes from the US. I believe that US investors will “wake up” at some point in the next 5 years and finally decide that Gruma deserves a multiple that is closer to its US-listed peers given its superior ROIC’s and organic growth. If not, Gruma will continue to generate significant FCF and invest it at high ROIC’s or even relist.

Gruma's history

Gruma's history dates back to 1949, when founder Roberto González Barrera began producing nixtamalized corn flour in Mexico. Nixtamalization is the time-consuming endeavor of preparing processed grain, which is easier to grind than unprocessed corn/grain and contains more nutritional value than traditional flour. This is because various nutrients can be incorporated into the flour. This nixtamalized corn flour can then be used in the production of tortillas and produced cheaply when done at a large scale. Since tortillas are such an integral part of the everyday diet for many Mexican consumers, being able to provide nixtamalized corn flour at the lowest cost possible is very important. GIMSA was able to capitalize on this need for scale decades ago and still retains this market leading and advantageous position today. While Gruma's history dates back many years and even entered the US market in 1977, the past 8 years have been a transformative time period for the business. After its founder passed away in 2012, Gruma sold and discontinued weak business units in 2013 and 2014, consolidated different entities in 2015 and 2017, and evolved its business strategy. A full timeline can be found in **Exhibit 2**.

Industry overview

Per IBIS, the tortilla production industry in the United States has grown at a CAGR of 4.1% from US\$2,158m in 2002 to US\$4,450m in 2020 (please see **Exhibit 3** for a chart). Spurring this growth is a rapid increase in the consumption of US Mexican food which is primarily comprised of hard/soft tortillas and taco kits. Over the past two years, the sale of these tortillas has grown at a CAGR of 7.8% and Gruma has an estimated ~49% market share (please see **Exhibit 4**). The other two largest players, General Mills and Bimbo, who each have 11.8% and 11.4% of the market share respectively, are completely subscale when compared to Gruma. Other players include private label (7.2%) and other brands/smaller regional players (20.5%).

Gruma also sells other products like wraps/tortilla chips and estimates that its total market opportunity in the US is US\$5bn for tortillas/tortilla chips. Gruma has a dominant ~40% market share in this segment based on generating 80% of Gruma USA sales from tortilla production (the remainder from corn flour).

In Mexico, GIMSA has ~74% market share in the sale of nixtamalized corn flour, which is 4x more than the sales of its closest competitor MINSÁ (please see **Exhibit 5**). Corn flour is only used to produce 34% of all tortillas in Mexico, which presents GIMSA with an opportunity to take its dominant market position and make a dent into this untapped market (please see **Exhibit 6**).

Simple business model

Gruma sells its tortillas products (which includes wraps) and corn flour through both the retail and commercial channels. In the US, 77% of total sales are through the retail channel. The retail channel refers to locations where consumers directly purchase Gruma's products, which can be large stores like Walmart and Kroger or smaller local mom and pop retailers. The other 23% of sales in the US come from commercial purchasers. This refers to large fast food companies who purchase mass quantities of "unbranded" products from Gruma (i.e. purchasing tortillas for burritos), as well as other potential buyers of tortillas/corn flour like hotels and government agencies. GIMSA and the other regions also sell products through both the retail and commercial channels.

On the cost side, corn is ~33% of total raw material costs, which Gruma purchases from farmers and grain sellers. Gruma does not distribute its own products and instead relies on third-party distributors for this function. Please see **Exhibit 7** for a full supplier to consumer transaction chain for Gruma.

Experienced and shareholder friendly management team with significant “skin in the game”

Gruma’s founding family owns ~47% of outstanding shares. Gruma’s core four executive officers, Juan A. González Moreno (CEO and Chairman of the Board), Raúl Cavazos Morales (CFO), Homero Huerta Moreno (Chief Administrative Officer and Board Member) and Felipe Antonio Rubio Lamas (CTO) have more than 144 years of combined experience working at Gruma. Backgrounds can be found in **Exhibit 8**.

In May 2018, Gruma began to repurchase its shares and total shares outstanding have been reduced by ~8% as of March 2021. Gruma has also grown its dividends per share at a 9.7% CAGR over the past 3 years.

Gruma is acutely focused on the long term, innovation and consistently improving operations. A few key takeaways from Company guidance include:

- The team holds weekly and monthly meetings with all of the plants to track output and stay ahead of any potential issues that may arise at the plants (minimize down time)
- Gruma keeps abreast to the performance of other tortilla players and complementary products in order to keep medium to long term M&A options open
- Always looking to reduce cost of capital and maximize returns on capital

Great business with sustainable and superior returns on capital

Please see **Exhibit 9** for a historical income statement, balance sheet, and cash flow statement.

High returns on capital, equity and assets and improving profitability

Gruma’s increasingly specialized focus on corn flour and tortilla production and sales have helped Gruma to consistently generate above average returns on invested capital, equity and assets over the past years.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
ROIC	20.8%	20.3%	16.6%	15.2%	14.8%	17.9%
ROE	27.7%	26.7%	24.1%	19.4%	18.6%	20.1%
ROA	11.9%	11.8%	10.6%	8.2%	7.5%	7.7%

Source: Gruma Annual Reports and CapIQ

Note: Assumed 30% tax rate

While these returns metrics clearly indicate an advantaged competitive positioning, they have declined over the past 5 years. Specifically, ROIC’s have declined because Gruma has significantly ramped up its investments into the US and other regions over the past few years, which has increased Capex as a % of revenue (please see **Exhibit 10** for a full breakdown).

But on the profitability side, since discontinuing its Venezuelan operations in 2013 and selling its Wheat Milling operations in 2014, Gruma’s EBIT margins have expanded from 5.6% in 2012 to 12.6% in 2020. Similarly, inventory turns have increased from 4.8x to 7.6x during this same time period (please see **Exhibit 11** for a comprehensive chart of these metrics).

When looking at ROA’s and ROE’s, a DuPont breakdown helps to understand what has been causing these returns to decline over the past 5 years.

	2015	2016	2017	2018	2019	2020	2020 Adj.
EBIT Margin	13.6%	13.1%	13.0%	12.8%	12.0%	12.6%	12.6%
Interest Burden	0.96	0.95	0.86	0.83	0.81	0.75	0.96
Other Income, Tax and Minority Interest Burden	0.67	0.70	0.79	0.64	0.64	0.63	0.63
Asset Turnover	1.37	1.35	1.20	1.21	1.20	1.30	1.30
ROA of Continued Ops	11.9%	11.8%	10.6%	8.2%	7.5%	7.7%	9.8%
Equity Multiplier	2.32	2.27	2.27	2.36	2.47	2.62	2.62
ROE	27.7%	26.7%	24.1%	19.4%	18.6%	20.1%	25.7%

Source: Gruma Annual Reports

It becomes clear that the Interest Burden has had the greatest impact on ROA's and ROE's and with an Interest Burden in 2020 at the same 2015 level, ROA and ROE would have been 9.8% and 25.7% respectively. In order to finance Gruma's capacity expansion from 2015 – 2019 after a few complex business transformation years, Gruma had to take out relatively expensive debt for such a low beta company. Furthermore, a substantial portion of this debt is priced in USD, which has appreciated significantly over the past five years (please see **Exhibit 12** for a snapshot of debt at FYE20). In order to remedy this negative effect of Interest Burden, management recently raised US\$200m of debt on March 31st, 2021, at LIBOR + 100 bps (~1.2%), which is 300 bps less than the current effective rate.

Impressive free cash flow generation

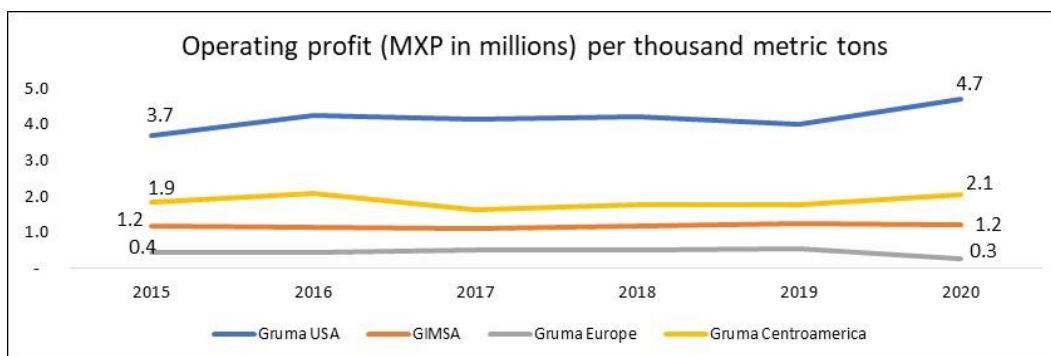
Gruma's yearly FCF's fluctuate depending on its level of capital investment, but since 2013, Gruma has achieved a cumulative FCF margin of 6.3%. This margin is ~9/10% during the bottom of investment cycles.

	2013	2014	2015	2016	2017	2018	2019	2020	Cumulative
Operating Cash Flow	6,679	6,730	5,057	8,977	4,998	7,709	7,648	12,746	60,545
Capital Expenditures	(1,409)	(1,597)	(3,073)	(5,599)	(5,158)	(3,970)	(1,765)	(3,514)	(26,085)
Free Cash Flow	5,271	5,133	1,983	3,379	(160)	3,740	5,883	9,232	34,460
<i>Free Cash Flow Margin</i>	<i>9.7%</i>	<i>10.3%</i>	<i>3.4%</i>	<i>5.0%</i>	<i>(0.2%)</i>	<i>5.1%</i>	<i>7.6%</i>	<i>10.1%</i>	<i>6.3%</i>

Source: Gruma Annual Reports and CapIQ

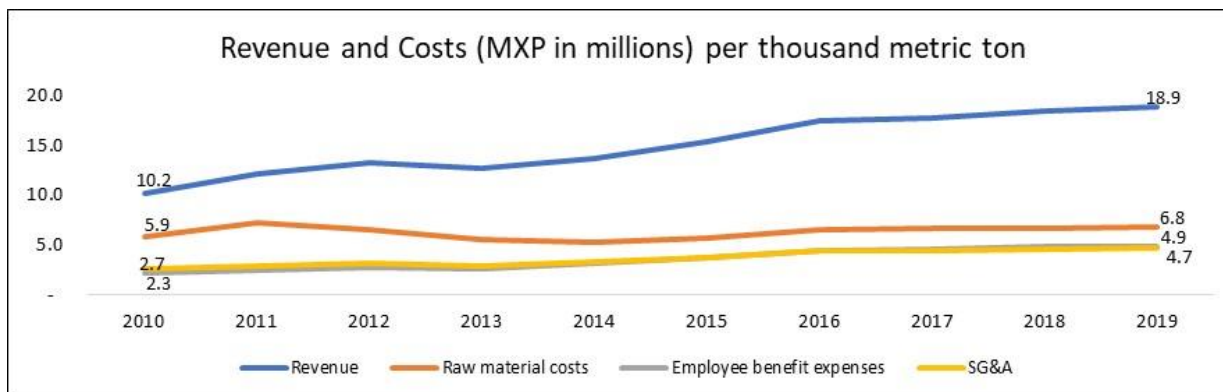
Improving unit economics driven by Gruma USA/Mission Foods

Finally, Gruma has continued to improve a majority of its business on a currency neutral basis. From 2015 – 2020, Gruma USA volume grew at a 2.4% CAGR and revenue per volume grew at a 3.6% CAGR. During this same time frame, gross profit margins expanded by 1.2% and EBIT margins expanded by 2.4%. When looking at GIMSA, GIMSA's volume grew at a 2.6% CAGR and revenue per volume grew at a 7.9% CAGR. During this same time frame, gross profit margins declined by 1.9% and EBIT margins declined 2.8%. For a full breakdown of operating performance/profitability per business segment, please see **Exhibit 13**.



Source: Gruma Annual Reports and Quarterly Earnings Reports

When looking at performance from a fully consolidated basis and on a per volume basis, Gruma has been able to expand revenue per thousand metric ton by close to ~90% from 2010 to 2019 (FY20 annual report has not been released yet), largely driven by Gruma USA's revenue growth/mix shift and ability to scale raw material costs due to increased market share, innovation, and tortilla demand. Other factors that have contributed to this scale include a Company-wide push towards business simplification. On the other hand, employee benefit expenses and SG&A per metric ton have grown in line or faster than revenue, largely driven by increasing wages in the US and profitability declines in Europe and Centroamerica.



Source: Gruma Annual Reports and Quarterly Earnings Reports

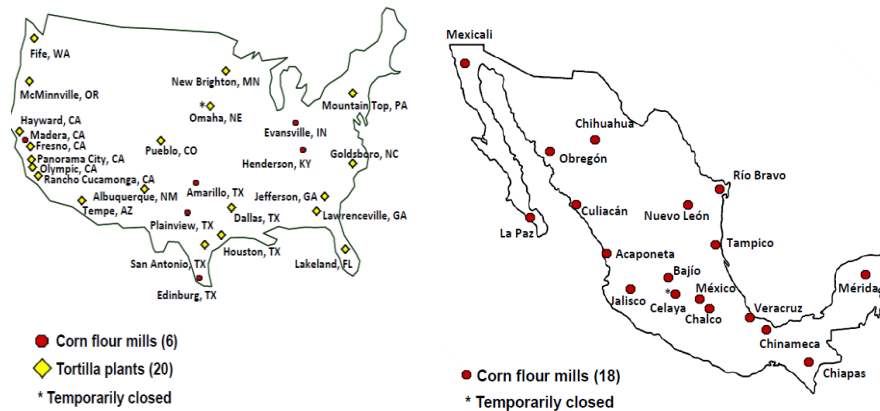
Competitive advantage #1 – Customer captivity

Gruma's customers, which include companies like Walmart, Kroger, smaller retailers and large commercial businesses/franchisors, have little incentive to deviate from purchasing from Gruma. Take Walmart for example, which is Gruma's largest customer. Because Mission Foods has developed strong brand awareness and there has been increasing consumption of tortillas/wraps in the US, Walmart provides Gruma with the largest amount of shelf space because it can offer a wide assortment of products (low carb/gluten-free/almond flour) at the lowest cost possible. Because many consumers shop at Walmart and Mission Foods dominates shelf space, there has been some form of habit formation with consumers that makes it difficult to deviate to other brands. Once a customer eats a Mission Foods product, there is brand awareness and whether it is a low carb tortilla or whole wheat wrap, consumers will go with the most reputable and lowest cost option. And because tortillas/wraps are often purchased with other products (cheese/salsa/meats), Gruma increases a consumer's basket size, which increases Walmart's profits. Thus, Gruma is able to push back on the power that these retailers usually put on food producers. Additionally, because Gruma is able to consistently innovate and offer healthier products that consumers crave, Gruma can capture more margin → higher profits → more earnings to invest in innovation and quickest distribution → more shelf space → more sales and repeat the flywheel.

Competitive advantage #2 – Economies of scale

Gruma has developed a network of corn flour mills and tortilla plants that is quite difficult to replicate. Over the years, Gruma has both acquired plants and built its own and as of year end 2020 had 26 mills and plants in the US and 18 in Mexico. These plants are outfitted with specialized tortilla-making technology and require many years of experience to successfully operate. With the largest network of plants in the US and being vertically integrated with its corn flour mills, Gruma can reduce the costs of transacting with other flour providers and distribute quicker to all parts of the US. Largest capacity and

network with high minimum efficient scale at a national level → difficult for any new entrant to replicate in a timely manner → high fixed costs spread out over large volumes for Gruma → operating leverage with higher volume output → greater profitability → more earnings than competitors to reinvest into the business → more factories and output that increases market share and barriers to entry.



Thesis Point #1 – Strong tailwinds for US growth

Mexican food moving into the mainstream: It is estimated that 18% of the total US population is of Latino origin as of 2019, with Latinos comprising 52% of the total US population growth from 2010 – 2019ⁱ. While Latino population growth has slowed in the US, its cultural impact and influence on US consumption habits is still strengthening, with non-Latinos generating a majority of Mexican food service purchasesⁱⁱ. It would be a fair assumption to say that tortillas, which usually are at the heart of most Mexican dishes, are becoming more mainstream and consumers are more willing to use tortillas in their everyday lives.

Post-pandemic consumption habits changing: Prior to the pandemic, Gruma USA’s volume and revenue per volume growth hovered steadily in the low-single digits. But during the pandemic with limited ability to eat out and consumers looking for a versatile but healthy carb with meals, tortillas/wraps became extremely popular meal choices. As the largest player in the US, Gruma was a huge beneficiary of this change in consumption habits, with Gruma USA’s sales volume increasing by 4.6% YoY from ’19-’20 and revenue per volume increasing by 12.8% YoY from ’19-’20. While this yearly performance is likely not replicable, it is quite probable that consumers will now eat at home less than pre-pandemic and shift their preferences more towards versatile/healthy products like tortillas/wraps, boding well for Gruma USA.

Healthier for you trends and SKU rationalization drive both volume growth and higher profitability: Publicly released data by Gruma reveals that the Company’s healthier for you products, like low carb tortillas, have 40% contribution margins, which is significantly above more basic tortilla/wrap productsⁱⁱⁱ. Moreover, these products are literally “flying off the shelves”, with Mission Carb Balance tortillas having increased sales by 33% to ~US\$126.5m from the 52 week period before April 21, 2019^{iv}. Gruma is planning on launching flatbread products and is strategically reducing SKU’s to favor those with better margins^v

Google trends analysis supports increasing interest in tortillas and Mission Foods: Consumers are searching for tortillas, Mission Foods products and Mexican food more than ever. As the largest producer with the most shelf space in the largest retailers, Gruma should benefit from this increased interest. Please see **Exhibit 14** for snapshots of these Google trends outputs.

Thesis Point #2 – GIMSA provides optionality and is incorrectly valued as a “commodity”

GIMSA is an underappreciated Mexican brand and cash flow machine that is almost like a “tax” on the overall state of Mexican consumption. With 74% market share of nixtamalized corn flour sales in Mexico and corn flour being a key ingredient in tortillas, which is at the heart of the Mexican diet, GIMSA continues to generate cash as long as Mexicans eat. Inflation in Mexico over the past 5 years has ranged from ~3-6% and GIMSA can consistently grow its business in tandem with this inflation.

	2015	2016	2017	2018	2019	2020
Revenue per Volume	8.59	9.09	9.57	9.94	10.57	11.04
Growth		5.8%	5.2%	3.9%	6.4%	4.4%
Inflation	2.7%	2.8%	6.0%	4.9%	3.6%	
COGS per Volume	5.96	6.57	6.95	7.12	7.54	7.86
Growth		10.4%	5.7%	2.4%	6.0%	4.2%
Inflation	2.7%	2.8%	6.0%	4.9%	3.6%	

Sources: Gruma Quarterly Earnings Report and Statista

Because of this entrenched position and long operating history in Mexico, GIMSA does not need to reinvest much into the business to maintain its market share, which leads to GIMSA generating ~12-15% FCF margins (please see **Exhibit 15** for a full breakdown of Gruma EBITDA, FCF and CapEx by segment). When looking at Capex, even though GIMSA generates ~30% of total free cash flow, GIMSA only makes up 16.5% of total Capex. GIMSA appears to be in a position to continue this impressive free cash flow generation into the future barring any government intervention into this near monopoly, which bodes well for Gruma since the Company invests FCF into the US and other regions that it believes will be the next geographies for growth. A quick analysis of Google trends in **Exhibit 16** highlights the stability of consumer interest in GIMSA’s Maseca corn flour.

Thesis Point #3 – Discount to peers will erase over time

Even though Gruma has superior returns on capital to peers and appears poised to organically grow revenue and improve profitability in the years to come, as of April 21st, 2021, the Company trades at a ~38% discount to peers on a TEV/EBIT basis. On a P/E multiple, Gruma is more in-line, but this is because Gruma’s tax rate and interest burden are higher than its peers. Moreover, Gruma has grown revenue faster than most of its peers, and has done so organically, while many of these peers have needed to acquire other brands to sustain growth. As Gruma USA continues to grow revenue and increase profitability, the business should see some multiple expansion towards its inferior US peers. If not, Gruma will continue to buyback shares at these valuations, like it has done over the past few years.

(All figures in millions in local currency - MXP for Mexico and USD for US)

	Market Cap	TEV	Revenue			EBIT			EPS			ROIC			2-year Rev CAGR	FY2020 EBIT Margin		
			2020 EV/EBIT	2020 P/E	FY2018	FY2019	FY2020	FY2018	FY2019	FY2020	FY2018	FY2019	FY2020	FY2018			FY2019	FY2020
Mexican Comps																		
Grupo Bimbo	190,129	270,411	8.3x	21.4x	289,320	291,926	331,050	24,944	26,867	32,549	1.24	1.36	2.00	10.6%	11.5%	14.1%	7.0%	9.8%
Grupo Lala	35,629	60,430	15.0x	71.6x	75,419	75,784	80,831	5,411	5,194	4,028	0.78	0.76	0.20	7.3%	7.5%	6.3%	3.5%	5.0%
U.S. Comps																		
Kellogg	21,967	29,558	15.9x	17.5x	13,547	13,578	13,770	1,803	1,606	1,855	3.85	2.82	3.65	12.8%	11.2%	13.6%	0.8%	13.5%
Conagra	18,502	27,581	15.2x	22.2x	7,938	9,538	11,054	1,270	1,622	1,814	2.00	1.53	1.72	14.1%	10.2%	8.3%	18.0%	16.4%
Campbell Soup	15,317	20,384	15.8x	NA	6,615	8,107	8,691	1,404	1,117	1,291	0.87	0.70	5.39	14.1%	8.7%	11.7%	14.6%	14.9%
Post	7,253	13,611	19.5x	NA	6,257	5,681	5,699	737	745	698	6.87	1.72	0.01	6.4%	6.3%	5.9%	(4.6%)	12.3%
B&G Foods	1,974	4,255	14.6x	15.3x	1,701	1,660	1,968	255	241	292	2.61	1.17	2.06	7.4%	7.3%	8.0%	7.6%	14.9%
Gruma	97,603	115,576	10.1x	18.0x	74,041	77,388	91,102	9,454	9,304	11,434	11.76	11.60	13.52	15.2%	14.8%	17.9%	10.9%	12.6%
Average US Comp			16.2x	18.3x										11.0%	8.7%	9.5%	7.3%	14.4%

Source: Gruma Annual Reports and CapIQ

Note: Conagra YE is May 31, Campbell Soup YE is July 31, and Post YE is September 30. Tax Rate assumed to be 21% for US and 30% for MX

Valuation

To highlight what I believe to be a positively asymmetric opportunity, I projected out Gruma’s operating performance per business segment over the next 5 years with base, bull, and bear cases. None of these

projections incorporated any currency translation effects and were projected off of currency neutral FY20 results. For the base case scenario, I projected GIMSA, Gruma Europe and Gruma Centramerica off of historical 5-yr CAGR's and kept margin profiles constant to 2020 levels. For Gruma USA, I projected volume out at a 3.00% CAGR, revenue per volume at a 1.75% CAGR, grew gross margins by 20bps each year, and decreased SG&A as a % of revenue by 20 bps by each year. Please see **Exhibits 17, 18 & 19** for the detailed projections for the base, bull, and bear cases. It is also worth noting that I model no buybacks, which is likely a very conservative assumption. Furthermore, I utilized an FCF margin of 7.0% for the base case cash build. The general components of my IRR bridge for the base case include (1) revenue growth - 5.4%, (2) operating margin expansion – 1.5%, (3) multiple expansion – 2.5% and (4) free cash flow build – 5.9%.

(MXP in millions)							
	Bear	Base	Bull		Bear	Base	Bull
Total 2025 Volume	4,660	4,833	5,024	<u>Assumptions</u>			
Total Revenue	100,737	112,105	120,233	US Volume '20-'25 CAGR	1.75%	3.00%	4.25%
(-) COGS	64,995	69,428	74,607	US Rev per Vol '20-'25 CAGR	0.75%	1.75%	2.25%
Gross Profit	35,742	42,677	45,626	FCF Margin ('21 - '25)	6.0%	7.0%	8.0%
(-) SG&A	25,884	27,607	28,738	<u>Key Outputs</u>			
EBIT	9,859	15,070	16,887	US as % of 2025 Total Revenue	55.0%	55.2%	56.0%
EBIT Multiple	8.0x	12.0x	14.0x	US as % of 2025 Total EBIT	67.5%	67.8%	67.9%
TEV	78,868	180,836	236,423	2025 US Gross Margin	41.9%	44.2%	44.4%
(+) Current Cash	10,173	10,173	10,173	2025 US EBIT Margin	12.0%	16.5%	17.0%
(+) Accumulated Cash	28,386	35,404	42,372	2025 Total Gross Margin	35.5%	38.1%	37.9%
(-) Current Debt	28,161	28,161	28,161	2025 Total EBIT Margin	9.8%	13.4%	14.0%
(-) Minority Interest	(15)	(15)	(15)				
Market Cap	89,281	198,267	260,822				
Current O/S	393.91	393.91	393.91				
Implied Share Price	226.66	503.33	662.14				
Current Share Price	247.78	247.78	247.78				
Upside / (Downside)	(8.5%)	103.1%	167.2%				
5 yr IRR	(1.8%)	15.2%	21.7%				

Source: Author Projections, Gruma Annual Reports and CapIQ
 Note: Debt and Cash adjusted for April 2021 \$200M issuance at MXP/USD of 20

Asset Value and EPV calculations

A calculation of Gruma's Asset Value and Earnings Power Value (where EPV > Asset Value) highlights Gruma's aforementioned competitive advantages. Furthermore, by taking the difference between the current Market Capitalization and Earnings Power Value, it is implied that the Market is assigning growth options to Gruma of MXP\$23,681M. Please see **Exhibit 20** for the backup for the Asset Value calculation and **Exhibit 21** for the Earnings Power Value calculation.

Catalysts

- Volume growth in the US post-pandemic stays strong
- Sales of shares by founding family creates more liquidity
- Re-listing of equity on a US exchange
- Continued share buybacks
- Continued lowering of Gruma's cost of capital though cheaper debt raises
- Acquisition of a complementary tortilla or food brand at a favorable valuation

Key Risks

- USD depreciates significantly against the Mexican Dollar
- Mexico institutes price controls on corn flour or takes action on GIMSA's dominant market share
- Walmart, which is Gruma's largest customer (or other retailers) decides to significantly expand private label and box out Gruma
- Food poisoning outbreak or anything similar that might impair retail relationships

Exhibit 1 – Sample Products/Brands

Gruma USA

- Produces and sells Mission Foods/Guerrero tortilla products (80% of sales)
- Produces and sells Maseca corn flour and unbranded corn flour to other food producers (20% of sales)
- 77% of Mission Foods' sales volume is generated by retail customers



GIMSA (Mexico)

- Produces and sells Maseca corn flour products to retail and commercial channels
- **Does not produce tortillas in Mexico**



Gruma Europe

- Sells Mission Foods products (77% of sales)
- Sells unbranded corn flour and grits to other food producers (20% of sales)



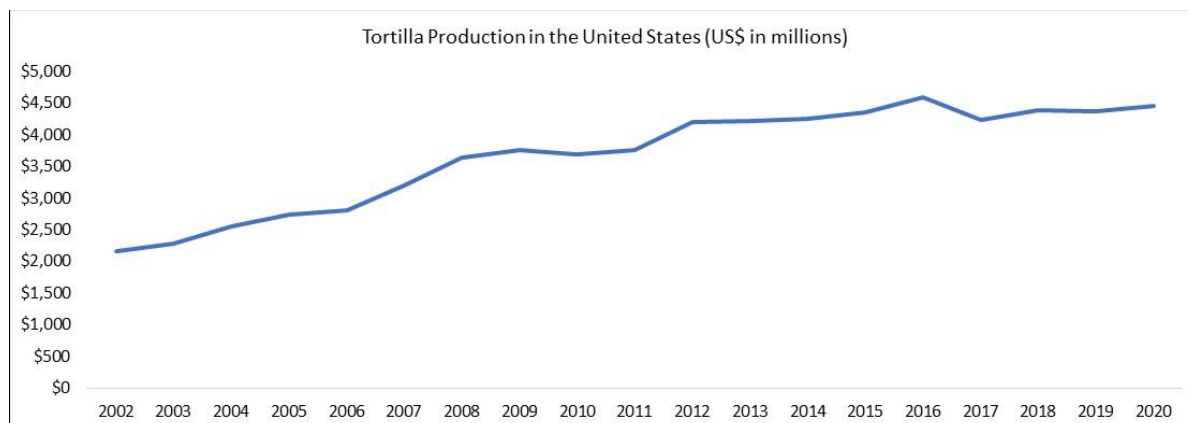
Source: 2021 Gruma Investor Presentation

Exhibit 2 - Timeline

- 1949 – Gruma was founded when founder Roberto González Barrera began producing nixtamalized corn flour in Mexico
- 1972 – Entered Central American market with operations in Costa Rica
- 1977 – Entered the US market through the acquisition of Mission Foods
- 1989 – 1995 – Increased installed manufacturing capacity in the US and Mexico
- 1993 – Entered Venezuela market
- 1994 – Became a public company in Mexico and the US
- 1997 – 2011 – Variety of plant acquisitions and organic efforts to increase manufacturing capacity all around the world
- 2012 – Roberto González Barrera passed away
- 2012 - Repurchased its own remaining shares and those in Azteca Milling from Archer Daniel Midlands
- 2013 – Deconsolidated Venezuelan operations after assets were expropriated – total consolidated volume sold fell by 11.7%**
- 2014 – Sold Wheat Milling Operations – total consolidated volume sold fell by 14.7%**
- 2015 – Deregistered ADRs from NYSE and wrote off its investment in Venezuela
- 2017 – Concluded a public offering to purchase all of the shares in GIMSA (which was publicly listed) that were not owned by Gruma
- 2018 – Continued construction of large tortilla/flour factories in the US and Mexico
- 2018 – Began repurchasing shares
- 2019 – Continued share repurchases
- 2020 – Began production of new tortilla plant in Indiana

Source: Gruma Annual Reports

Exhibit 3 – US Tortilla Production



Source: IBIS World

Exhibit 4 – US Mexican Food and Tortilla Sales

(\$ in millions)

	LTM 3/25/18	LTM 3/24/19	LTM 4/19/20	2- year CAGR
US Mexican Food Sales	2,779	2,880	3,217	7.6%
Hard/Soft Tortillas/Taco Kits Sales	2,458	2,556	2,857	7.8%

% of Hard/Soft Tortillas/Taco Kits Sales

	LTM 3/25/18	LTM 3/24/19	LTM 4/19/20
Mission Foods	32.0%	32.6%	34.3%
Guerrero	16.2%	15.6%	14.8%
General Mills	11.5%	11.8%	11.8%
Ole Mexican	10.2%	10.9%	11.4%
Private Label	8.3%	7.8%	7.2%
Other	21.9%	21.2%	20.5%
Total Gruma Sales	48.15%	48.27%	49.11%

Source: Snack Food & Wholesale Bakery State of the Industry

Source: Snack Food & Wholesale Bakery State of the Industry Reports

Exhibit 5 – Mexican Nixtamalized Corn Flour Market

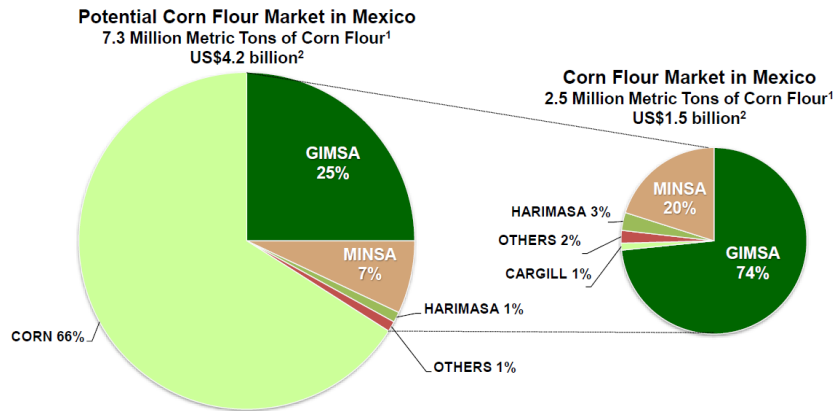
(MXP in millions)

	2015	2016	2017	2018	2019	2020
GIMSA	15,871	17,866	19,508	20,508	21,585	23,168
MINSA	4,305	4,138	3,955	4,479	4,834	5,158

Source: Quarterly Earnings Reports and CapIQ

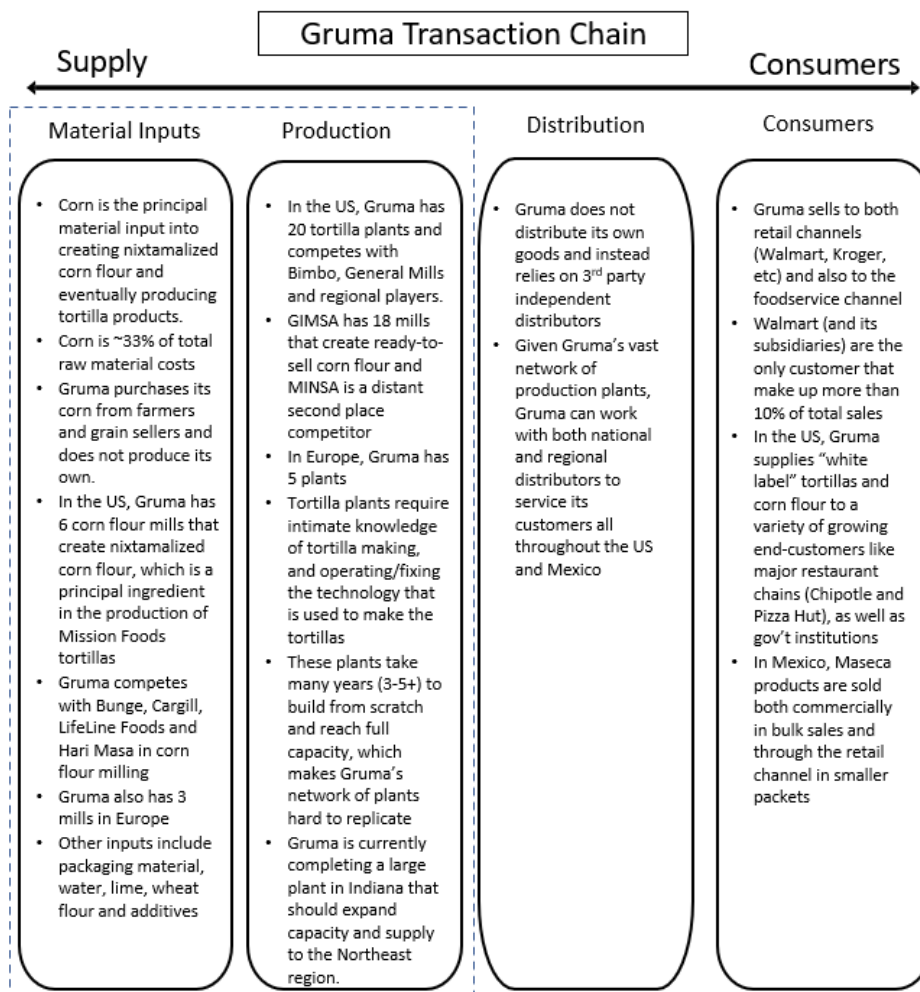
Source: Gruma Annual and Quarterly Earnings Reports; CapIQ

Exhibit 6 – Corn Flour Markets in Mexico



Source: 2021 Gruma Investor Presentation

Exhibit 7 – Gruma Transaction Chain



Source: Gruma Annual Reports and Author

Exhibit 8 – Key Management Background

Juan A. González Moreno

Age: 62
 Years as Executive Officer: 18
 Years at GRUMA: 40
 Current Position: Chief Executive Officer
 Business Experience: Several positions in GRUMA, including Chief Executive Officer of Special Projects of Gruma USA, President of Arteca Milling, Vice President of Central and Eastern Regions of Mission Foods, President and Vice President of Sales of Arteca Milling, Chief Executive Officer of Gruma Asia-Oceania

Current CEO and Chairman of the Board

Raúl Cavazos Morales

Age: 60
 Years as Executive Officer: 8
 Years at GRUMA: 32
 Current Position: Chief Financial Officer
 Business Experience: Several finance positions within GRUMA, including Chief Treasury Officer and Vice President of Corporate Treasury

Current CFO

Homero Huerta Moreno

Years as Executive Officer: 18
 Years at GRUMA: 35
 Current Position: Chief Administrative Officer
 Business Experience: Several positions within GRUMA including Corporate Internal Audit Vice President, Management Information Systems Vice President, Controllership Vice President of Gruma Corporation and Finance and Administrative Vice President of Gruma Venezuela

Current CAO and Board Member

Felipe Antonio Rubio Lamas

Age: 62
 Years as Executive Officer: 18
 Years at GRUMA: 37
 Current Position: Chief Technology Officer
 Business Experience: Several managerial and Senior Vice President positions within Gruma USA related to manufacturing processes, engineering, design, and construction of production facilities

Current CTO

Source: Gruma Annual Report

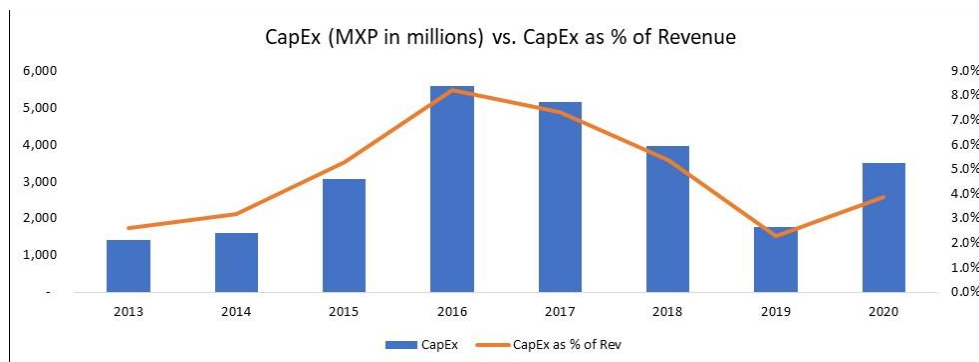
Exhibit 9 – Historical Income Statement, Balance Sheet and Cash Flow Statement

	2015	2016	2017	2018	2019	2020
Income Statement						
Revenue	58,279	68,206	70,581	74,038	77,388	91,103
(-) COGS	(35,938)	(42,151)	(43,803)	(46,347)	(48,672)	(56,260)
<i>Gross Profit</i>	<i>22,341</i>	<i>26,056</i>	<i>26,778</i>	<i>27,690</i>	<i>28,716</i>	<i>34,843</i>
(-) SG&A	(14,442)	(17,140)	(17,595)	(18,239)	(19,413)	(23,409)
<i>Operating Income</i>	<i>7,899</i>	<i>8,915</i>	<i>9,182</i>	<i>9,452</i>	<i>9,303</i>	<i>11,434</i>
(-) Net Financing Costs	(323)	(438)	(1,263)	(1,565)	(1,722)	(2,871)
Op Income Before Other	7,576	8,477	7,919	7,887	7,581	8,563
Other Income (Expense)	(531)	206	137	(26)	(21)	(86)
Profit Before Taxes	7,045	8,683	8,056	7,861	7,560	8,477
(-) Income Tax	(1,646)	(2,449)	(1,782)	(2,808)	(2,711)	(3,097)
Profit After Taxes	5,398	6,234	6,274	5,053	4,849	5,380
(-) Minority Interest	(323)	(312)	(56)	(1)	(2)	1
Earnings of Continued Operations	5,076	5,922	6,218	5,052	4,847	5,381
Earnings of Discontinued Operations	(4,314)	-	-	(82)	(11)	(11)
Net Income	762	5,922	6,218	4,970	4,836	5,370
Balance Sheet						
Assets						
Cash and Cash Equivalents	2,919	5,467	3,230	3,436	3,944	6,173
Accounts Receivables	6,724	7,641	9,181	9,476	10,609	10,339
Inventories	7,817	8,682	10,790	11,116	11,238	11,945
Other Short Term Assets	1,054	1,319	1,507	1,033	909	1,498
Total Current Assets	18,514	23,109	24,708	25,061	26,700	29,955
Property, Plant, and Equipment	20,170	26,313	29,327	30,155	28,666	31,044
Intangibles/Goodwill	3,502	4,026	4,223	4,319	4,125	3,953
Other Long Term Assets	2,147	2,909	2,563	2,298	7,392	8,827
Total Assets	44,333	56,358	60,821	61,833	66,883	73,778
Liabilities						
Accounts Payable	3,914	5,204	6,512	5,968	5,652	11,451
Short Term Debt	2,660	3,725	2,897	4,330	587	3,709
Short Term Lease	-	-	-	-	613	717
Other Current Liabilities	5,093	5,317	5,343	5,474	6,060	1,258
Total Current Liabilities	11,667	14,246	14,752	15,772	12,299	16,418
Long Term Debt	10,494	12,230	17,310	17,164	21,039	20,452
Long Term Lease	-	-	-	-	4,404	5,962
Other Long Term Liabilities	3,577	4,182	2,780	2,795	7,567	9,236
Total Liabilities	25,739	30,658	34,842	35,731	40,905	46,106
Shareholders Equity	18,594	25,700	25,979	26,102	25,978	27,672
Total Liabilities + Shareholders Equity	44,333	56,358	60,821	61,833	66,883	73,778
Cash Flow Statement						
Operating Cash Flow	5,057	8,977	4,998	7,709	7,648	12,746
Cash Flow from Investing						
Capital Expenditures	(3,073)	(5,599)	(5,158)	(3,970)	(1,765)	(3,514)
Other Income / (Expenditure)	228	114	(28)	63	451	179
Total Cash Flow from Investing	(2,845)	(5,485)	(5,186)	(3,907)	(1,314)	(3,335)
Cash Flow from Financing						
Debt Raised	8,453	7,518	32,836	30,376	55,746	14,930
Debt Paid Down	(8,099)	(7,440)	(28,576)	(28,912)	(55,027)	(14,366)
Buybacks	-	-	-	(2,068)	(1,995)	(3,227)
Dividends	(780)	(479)	(1,357)	(1,839)	(1,872)	(2,082)
Other	(651)	(1,236)	(5,100)	(1,193)	(2,535)	(2,762)
Total Cash Flow from Financing	(1,077)	(1,637)	(2,197)	(3,636)	(5,682)	(7,506)

Source: Gruma Annual Reports and CapIQ

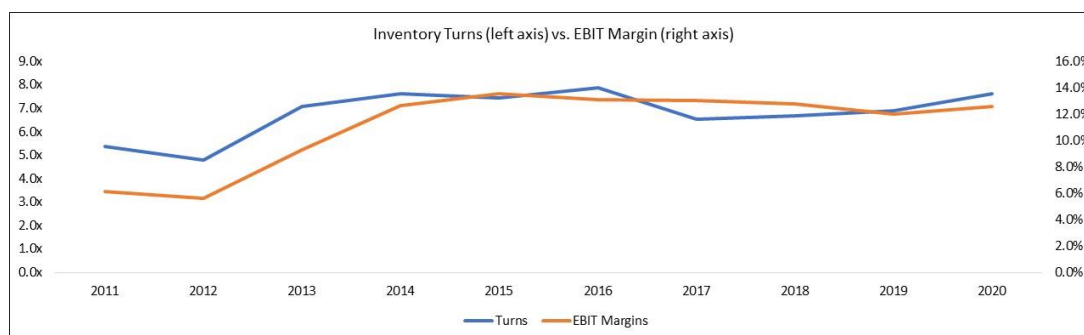
Source: Gruma Annual Report

Exhibit 10 – Capex and Capex as % of Revenue



Source: Gruma Annual Reports and CapIQ

Exhibit 11 – Inventory Turns vs. EBIT Margins



Source: Gruma Annual Reports and CapIQ

Exhibit 12 – Gruma Debt Profile as of FYE20

GRUMA
Debt Maturity Profile ¹
As of December 31, 2020
(millions of US\$)

	Rate	2021	2022	2023	2024	2025	2026	2027	TOTAL
Senior Notes 2024 (USD)	Fixed 4.875%				400.0				400.0
Scotiabank Term Loan (USD \$250)	Fixed 2.79%					250.0			250.0
Rabobank Syndicated Term Loan (USD \$150)	LIBOR + 1%	26.3	82.5						108.8
Scotiabank Revolving Facility (USD \$120)	LIBOR + 0.75%		70.0						70.0
Cebures 2023 (MXN \$3,000)	Fixed 8.52%			150.4					150.4
Club Loan (MXN \$2,000)	TIE + 0.55%	100.3							100.3
Other:									
USD	1.40%	4.5							4.5
EUR	1.64%	5.4	13.3	13.1	13.1	11.1	11.1		67.1
TOTAL	4.12% (avg.)	136.4	165.8	163.5	413.1	261.1	11.1	0.0	1,151.0

Source: 2021 Gruma Investor Presentation

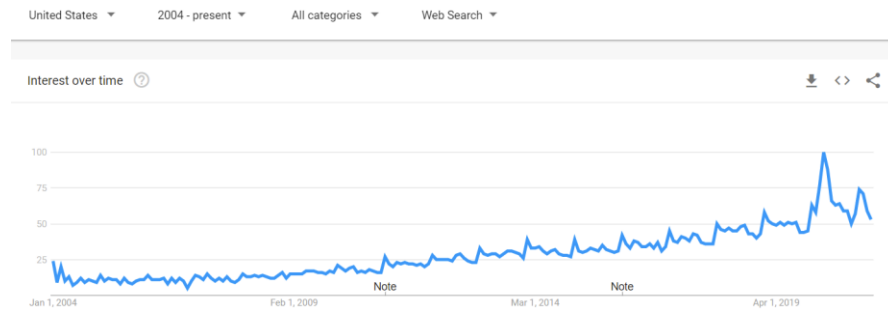
Exhibit 13 – Operating Performance by Business Segment

(MXP in millions)								
	2015	2016	2017	2018	2019	2020	19/20 YoY	5 Yr CAGR
<u>Sales Volume (thousand metric tons)</u>								
Gruma USA	1,341	1,374	1,367	1,397	1,441	1,507	4.6%	2.4%
GIMSA	1,847	1,965	2,039	2,064	2,042	2,099	2.8%	2.6%
Gruma Europe	404	370	374	340	395	404	2.3%	0.0%
Gruma Centroamerica	199	203	195	210	213	243	14.1%	4.1%
Other	39	48	34	43	25	(20)		
Total	3,830	3,960	4,009	4,054	4,116	4,233	2.8%	2.0%
<u>Revenue (in millions of pesos)</u>								
Gruma USA	41,092	41,824	40,471	41,305	41,502	48,956	18.0%	3.6%
GIMSA	15,871	17,866	19,508	20,508	21,585	23,168	7.3%	7.9%
Gruma Europe	5,807	5,484	5,373	5,528	5,574	5,567	(0.1%)	(0.8%)
Gruma Centroamerica	4,057	4,639	4,533	4,596	4,603	5,609	21.9%	6.7%
Other/Convenience Translation	(8,548)	(1,606)	696	2,104	4,124	7,802		
Total	58,279	68,207	70,581	74,041	77,388	91,102	17.7%	9.3%
<u>Rev per Volume (thousand metric ton)</u>								
Gruma USA	30.64	30.44	29.61	29.57	28.80	32.49	12.8%	1.2%
GIMSA	8.59	9.09	9.57	9.94	10.57	11.04	4.4%	5.1%
Gruma Europe	14.37	14.82	14.37	16.26	14.11	13.78	(2.4%)	(0.8%)
Gruma Centroamerica	20.39	22.85	23.25	21.89	21.61	23.08	6.8%	2.5%
<u>Cost of Sales</u>								
Gruma USA	23,817	23,921	22,795	23,716	23,909	27,830	16.4%	3.2%
GIMSA	11,000	12,919	14,173	14,692	15,405	16,502	7.1%	8.4%
Gruma Europe	4,380	4,204	4,041	4,229	4,232	4,204	(0.7%)	(0.8%)
Gruma Centroamerica	2,543	2,830	2,829	2,996	2,987	3,702	23.9%	7.8%
Other/Convenience Translation	-5,802	-1,723	-34	714	2,138	4,022		
Total	35,938	42,151	43,804	46,347	48,671	56,260	15.6%	9.4%
<u>COGS per Volume (thousand metric ton)</u>								
Gruma USA	17.76	17.41	16.68	16.98	16.59	18.47	11.3%	0.8%
GIMSA	5.96	6.57	6.95	7.12	7.54	7.86	4.2%	5.7%
Gruma Europe	10.84	11.36	10.80	12.44	10.71	10.41	(2.9%)	(0.8%)
Gruma Centroamerica	12.78	13.94	14.51	14.27	14.02	15.23	8.6%	3.6%
<u>Gross Profit</u>								
Gruma USA	17,275	17,903	17,676	17,589	17,593	21,126	20.1%	4.1%
GIMSA	4,871	4,947	5,335	5,816	6,180	6,666	7.9%	6.5%
Gruma Europe	1,427	1,280	1,332	1,299	1,342	1,363	1.6%	(0.9%)
Gruma Centroamerica	1,514	1,809	1,704	1,600	1,616	1,907	18.0%	4.7%
Other/Convenience Translation	(2,746)	117	730	1,390	1,986	3,780		
Total	22,341	26,056	26,777	27,694	28,717	34,842	21.3%	9.3%
<u>Gross Profit Margin</u>								
Gruma USA	42.0%	42.8%	43.7%	42.6%	42.4%	43.2%		
GIMSA	30.7%	27.7%	27.3%	28.4%	28.6%	28.8%		
Gruma Europe	24.6%	23.3%	24.8%	23.5%	24.1%	24.5%		
Gruma Centroamerica	37.3%	39.0%	37.6%	34.8%	35.1%	34.0%		
Total	38.3%	38.2%	37.9%	37.4%	37.1%	38.2%		
<u>SG&A</u>								
Gruma USA	12,300	12,039	11,980	11,677	11,789	14,022	18.9%	2.7%
GIMSA	2,666	2,673	3,042	3,407	3,631	4,086	12.5%	8.9%
Gruma Europe	1,246	1,120	1,138	1,120	1,129	1,252	10.9%	0.1%
Gruma Centroamerica	1,145	1,383	1,384	1,224	1,237	1,406	13.7%	4.2%
Other/Convenience Translation	(2,384)	(282)	(86)	812	1,627	2,642		
Total	14,973	16,933	17,458	18,240	19,413	23,408	20.6%	9.3%
<u>SG&A as % of Revenue</u>								
Gruma USA	29.9%	28.8%	29.6%	28.3%	28.4%	28.6%		
GIMSA	16.8%	15.0%	15.6%	16.6%	16.8%	17.6%		
Gruma Europe	21.5%	20.4%	21.2%	20.3%	20.3%	22.5%		
Gruma Centroamerica	28.2%	29.8%	30.5%	26.6%	26.9%	25.1%		
Total	25.7%	24.8%	24.7%	24.6%	25.1%	25.7%		
<u>Op Income</u>								
Gruma USA	4,975	5,864	5,696	5,912	5,804	7,104	22.4%	7.4%
GIMSA	2,205	2,274	2,293	2,409	2,549	2,580	1.2%	3.2%
Gruma Europe	181	160	194	179	213	111	(47.9%)	(9.3%)
Gruma Centroamerica	369	426	320	376	379	501	32.2%	6.3%
Other/Convenience Translation	(362)	399	816	578	337	1,052		
Total	7,368	9,123	9,319	9,454	9,282	11,348	22.3%	9.0%
<u>Op Income Margin</u>								
Gruma USA	12.1%	14.0%	14.1%	14.3%	14.0%	14.5%		
GIMSA	13.9%	12.7%	11.8%	11.7%	11.8%	11.1%		
Gruma Europe	3.1%	2.9%	3.6%	3.2%	3.8%	2.0%		
Gruma Centroamerica	9.1%	9.2%	7.1%	8.2%	8.2%	8.9%		
Total	12.6%	13.4%	13.2%	12.8%	12.0%	12.5%		
USD/MXP Exchange Rate	20.664	20.664	19.7354	19.6829	18.8452	19.9487		

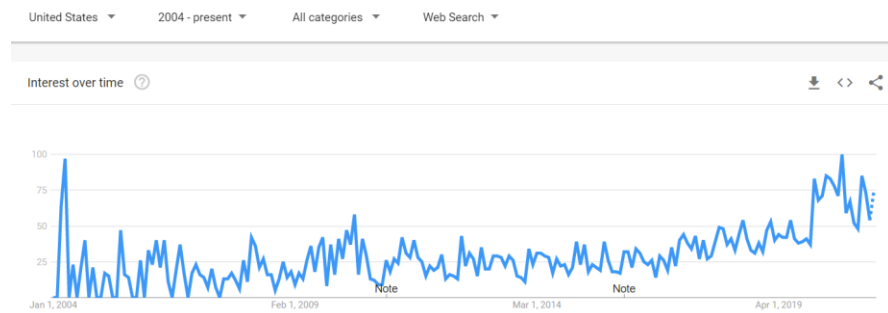
Source: Gruma Quarterly Earnings Reports

Exhibit 14 – Gruma USA Google Trends Searches

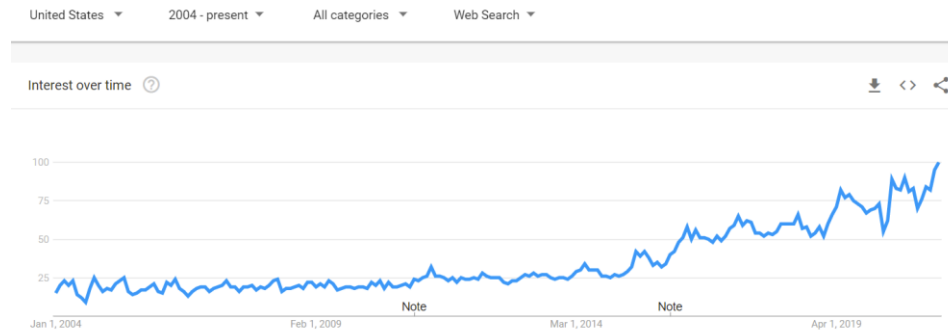
Search Term: “tortillas”



Search Term: “Mission tortillas”



Search Term: “Mexican Food”



Search Term: “Low carb tortillas”

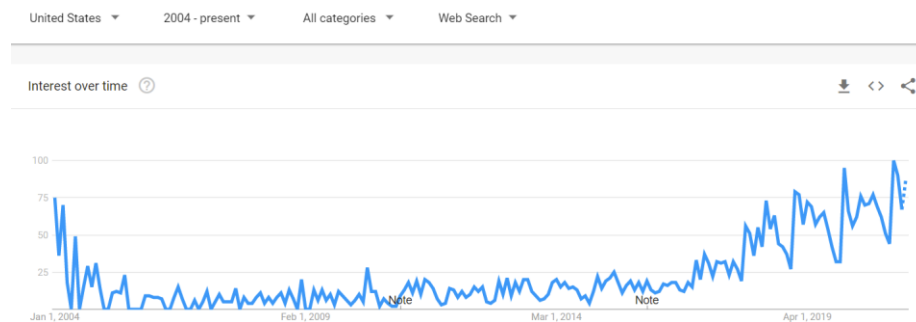


Exhibit 15 – Gruma EBITDA, FCF and Capex Breakdown

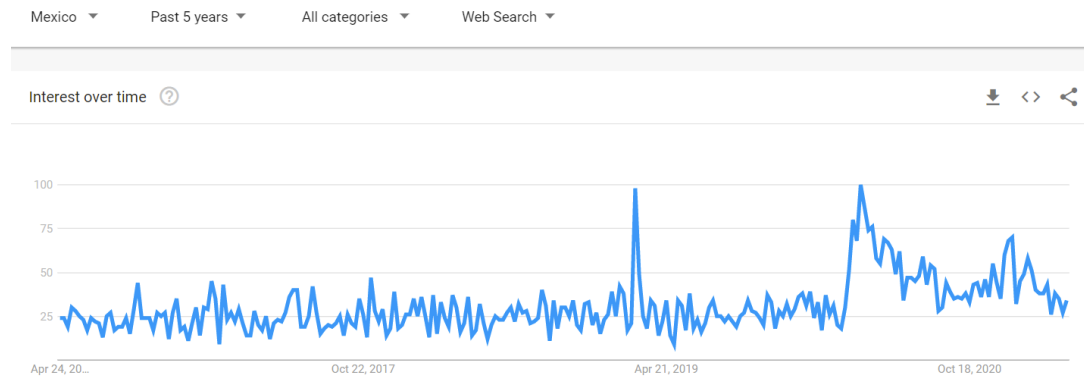
	2015	2016	2017	2018	2019		2015	2016	2017	2018	2019
EBITDA						FCF Margin					
Gruma USA	4,994	6,525	6,611	7,160	7,922	Gruma USA	13.2%	11.0%	11.0%	14.5%	16.9%
GIMSA	2,942	2,964	3,084	3,297	3,531	GIMSA	14.6%	11.9%	12.7%	13.6%	15.0%
Gruma Europe	329	341	391	440	509	Gruma Europ	1.8%	(14.8%)	(9.5%)	(4.3%)	5.2%
Other	862	1,027	975	1,137	1,119	Other	1.4%	(2.5%)	1.5%	1.7%	5.6%
Corporate	12	107	282	(293)	(620)	Total	11.5%	7.9%	8.8%	10.5%	13.8%
Total	9,139	10,964	11,344	11,741	12,462	% of Capex					
CapEx						Gruma USA	33.3%	41.6%	45.9%	33.6%	42.2%
Gruma USA	811	2,330	2,370	1,335	746	GIMSA	25.4%	15.0%	11.7%	12.9%	16.5%
GIMSA	617	839	604	510	292	Gruma Europ	10.3%	19.2%	17.0%	17.0%	12.0%
Gruma Europe	250	1,077	878	673	211	Other	30.4%	23.1%	15.7%	23.9%	28.3%
Other	739	1,295	809	948	499	Corporate	0.6%	1.0%	9.7%	12.7%	1.0%
Corporate	15	58	498	503	17	% of FCF					
Total	2,432	5,599	5,158	3,970	1,765	Gruma USA	62.4%	78.2%	68.6%	75.0%	67.1%
FCF						GIMSA	34.7%	39.6%	40.1%	35.9%	30.3%
Gruma USA	4,184	4,195	4,242	5,825	7,177	Gruma Europ	1.2%	(13.7%)	(7.9%)	(3.0%)	2.8%
GIMSA	2,325	2,125	2,481	2,787	3,239	Other	1.8%	(5.0%)	2.7%	2.4%	5.8%
Gruma Europe	79	(736)	(486)	(234)	298						
Other	123	(268)	166	189	620						
Total	6,707	5,365	6,186	7,772	10,697						

Source: Gruma Annual Reports

Source: Gruma Annual Reports

Exhibit 16 – GIMSA Google Trends Searches

Search Term: "Maseca"



Search Term: "Harina de maiz"

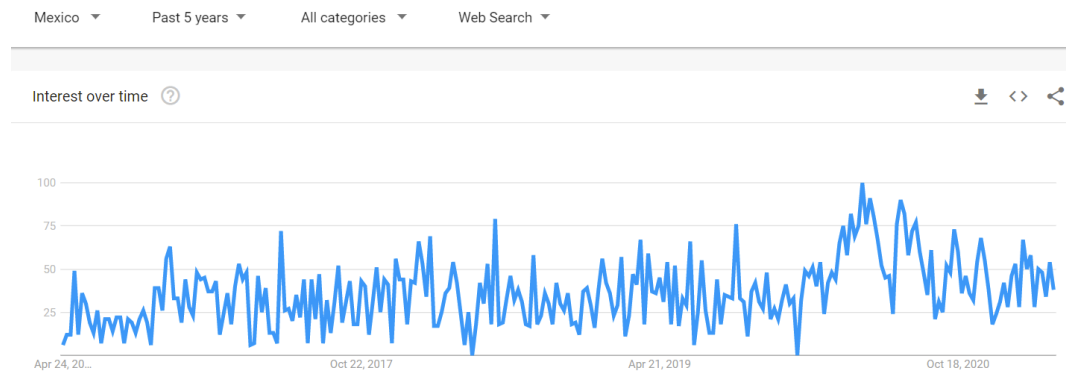


Exhibit 17 – Base Case Projections

(MXP in millions)	2021E	2022E	2023E	2024E	2025E
Sales Volume (thousand metric tons)					
Gruma USA	1,552	1,599	1,647	1,696	1,747
GIMSA	2,153	2,209	2,266	2,325	2,385
Gruma Europe	404	404	404	404	404
Gruma Centroamerica	253	263	274	285	297
Total	4,362	4,475	4,591	4,710	4,833
Revenue (in millions of pesos)					
Gruma USA	51,307	53,771	56,353	59,060	61,896
GIMSA	24,989	26,953	29,071	31,356	33,820
Gruma Europe	5,520	5,474	5,428	5,382	5,337
Gruma Centroamerica	5,984	6,385	6,812	7,268	7,755
Oceania/Other	3,046	3,107	3,169	3,232	3,297
Total	90,847	95,690	100,834	106,298	112,105
Rev per Volume (thousand metric ton)					
Gruma USA	33.05	33.63	34.22	34.82	35.43
GIMSA	11.60	12.20	12.83	13.49	14.18
Gruma Europe	13.66	13.55	13.44	13.32	13.21
Gruma Centroamerica	23.66	24.26	24.87	25.49	26.13
Cost of Sales					
Gruma USA	29,064	30,352	31,697	33,101	34,567
GIMSA	17,799	19,198	20,707	22,334	24,089
Gruma Europe	4,169	4,134	4,099	4,064	4,030
Gruma Centroamerica	3,950	4,214	4,496	4,797	5,118
Oceania/Other	1,500	1,530	1,561	1,592	1,624
Total	56,481	59,428	62,559	65,888	69,428
COGS per Volume (thousand metric ton)					
Gruma USA	18.72	18.98	19.25	19.52	19.79
GIMSA	8.27	8.69	9.14	9.61	10.10
Gruma Europe	10.32	10.23	10.15	10.06	9.98
Gruma Centroamerica	15.62	16.01	16.41	16.83	17.25
Gross Profit					
Gruma USA	22,243	23,419	24,656	25,959	27,329
GIMSA	7,190	7,755	8,364	9,022	9,731
Gruma Europe	1,352	1,340	1,329	1,318	1,307
Gruma Centroamerica	2,035	2,171	2,316	2,471	2,637
Oceania/Other	1,546	1,577	1,608	1,641	1,673
Total	34,365	36,262	38,274	40,410	42,677
Gross Profit Margin					
Gruma USA	43.4%	43.6%	43.8%	44.0%	44.2%
GIMSA	28.8%	28.8%	28.8%	28.8%	28.8%
Gruma Europe	24.5%	24.5%	24.5%	24.5%	24.5%
Gruma Centroamerica	34.0%	34.0%	34.0%	34.0%	34.0%
Total	37.8%	37.9%	38.0%	38.0%	38.1%
SG&A					
Gruma USA	14,593	15,186	15,803	16,443	17,109
GIMSA	4,407	4,753	5,127	5,530	5,965
Gruma Europe	1,241	1,231	1,221	1,210	1,200
Gruma Centroamerica	1,500	1,601	1,708	1,822	1,944
Oceania/Other	1,283	1,309	1,335	1,362	1,389
Total	23,024	24,080	25,193	26,367	27,607
SG&A as % of Revenue					
Gruma USA	28.4%	28.2%	28.0%	27.8%	27.6%
GIMSA	17.6%	17.6%	17.6%	17.6%	17.6%
Gruma Europe	22.5%	22.5%	22.5%	22.5%	22.5%
Gruma Centroamerica	25.1%	25.1%	25.1%	25.1%	25.1%
Total	25.3%	25.2%	25.0%	24.8%	24.6%
Op Income					
Gruma USA	7,650	8,233	8,854	9,515	10,220
GIMSA	2,783	3,001	3,237	3,492	3,766
Gruma Europe	110	109	108	107	106
Gruma Centroamerica	535	570	608	649	693
Oceania/Other	263	268	274	279	285
Total	11,341	12,182	13,081	14,043	15,070
Op Income Margin					
Gruma USA	14.9%	15.3%	15.7%	16.1%	16.5%
GIMSA	11.1%	11.1%	11.1%	11.1%	11.1%
Gruma Europe	2.0%	2.0%	2.0%	2.0%	2.0%
Gruma Centroamerica	8.9%	8.9%	8.9%	8.9%	8.9%
Total	12.5%	12.7%	13.0%	13.2%	13.4%
Op Inc. per Volume (thousand metric ton)					
Gruma USA	4.93	5.15	5.38	5.61	5.85
GIMSA	1.29	1.36	1.43	1.50	1.58
Gruma Europe	0.27	0.27	0.27	0.27	0.26
Gruma Centroamerica	2.11	2.17	2.22	2.28	2.33
USD/MXP Exchange Rate	NA	NA	NA	NA	NA

Source: Author's Projections

Exhibit 18 – Bull Case Projections

(MXP in millions)	2021E	2022E	2023E	2024E	2025E
Sales Volume (thousand metric tons)					
Gruma USA	1,571	1,638	1,707	1,780	1,856
GIMSA	2,162	2,227	2,294	2,362	2,433
Gruma Europe	408	412	416	420	425
Gruma Centroamerica	255	268	281	295	310
Total	4,396	4,545	4,699	4,858	5,024
Revenue (in millions of pesos)					
Gruma USA	52,185	55,627	59,296	63,207	67,376
GIMSA	25,176	27,357	29,727	32,303	35,102
Gruma Europe	5,623	5,679	5,736	5,793	5,851
Gruma Centroamerica	6,066	6,561	7,095	7,673	8,299
Oceania/Other	3,500	3,605	3,605	3,605	3,605
Total	92,549	98,828	105,459	112,582	120,233
Rev per Volume (thousand metric ton)					
Gruma USA	33.22	33.96	34.73	35.51	36.31
GIMSA	11.64	12.29	12.96	13.67	14.43
Gruma Europe	13.78	13.78	13.78	13.78	13.78
Gruma Centroamerica	23.77	24.49	25.22	25.98	26.76
Cost of Sales					
Gruma USA	29,535	31,344	33,263	35,299	37,459
GIMSA	17,882	19,376	20,996	22,750	24,652
Gruma Europe	4,235	4,266	4,297	4,328	4,360
Gruma Centroamerica	3,998	4,317	4,662	5,034	5,436
Oceania/Other	2,400	2,472	2,546	2,623	2,701
Total	58,049	61,775	65,764	70,034	74,607
COGS per Volume (thousand metric ton)					
Gruma USA	18.80	19.14	19.48	19.83	20.19
GIMSA	8.27	8.70	9.15	9.63	10.13
Gruma Europe	10.38	10.35	10.32	10.30	10.27
Gruma Centroamerica	15.67	16.11	16.57	17.04	17.53
Gross Profit					
Gruma USA	22,650	24,283	26,033	27,908	29,917
GIMSA	7,294	7,981	8,732	9,553	10,451
Gruma Europe	1,388	1,413	1,439	1,465	1,491
Gruma Centroamerica	2,068	2,244	2,434	2,640	2,863
Oceania/Other	1,100	1,133	1,059	982	904
Total	34,500	37,053	39,695	42,547	45,626
Gross Profit Margin					
Gruma USA	43.4%	43.7%	43.9%	44.2%	44.4%
GIMSA	29.0%	29.2%	29.4%	29.6%	29.8%
Gruma Europe	24.7%	24.9%	25.1%	25.3%	25.5%
Gruma Centroamerica	34.1%	34.2%	34.3%	34.4%	34.5%
Total	37.3%	37.5%	37.6%	37.8%	37.9%
SG&A					
Gruma USA	14,816	15,655	16,539	17,472	18,456
GIMSA	4,415	4,770	5,154	5,568	6,015
Gruma Europe	1,259	1,266	1,273	1,280	1,287
Gruma Centroamerica	1,521	1,645	1,779	1,923	2,080
Oceania/Other	800	824	849	874	900
Total	22,811	24,159	25,592	27,117	28,738
SG&A as % of Revenue					
Gruma USA	28.4%	28.1%	27.9%	27.6%	27.4%
GIMSA	17.5%	17.4%	17.3%	17.2%	17.1%
Gruma Europe	22.4%	22.3%	22.2%	22.1%	22.0%
Gruma Centroamerica	25.1%	25.1%	25.1%	25.1%	25.1%
Total	24.6%	24.4%	24.3%	24.1%	23.9%
Op Income					
Gruma USA	7,833	8,628	9,494	10,436	11,461
GIMSA	2,879	3,211	3,578	3,985	4,436
Gruma Europe	129	147	166	185	204
Gruma Centroamerica	548	599	655	716	783
Oceania/Other	300	309	210	108	3
Total	11,689	12,894	14,103	15,430	16,887
Op Income Margin					
Gruma USA	15.0%	15.5%	16.0%	16.5%	17.0%
GIMSA	11.4%	11.7%	12.0%	12.3%	12.6%
Gruma Europe	2.3%	2.6%	2.9%	3.2%	3.5%
Gruma Centroamerica	9.0%	9.1%	9.2%	9.3%	9.4%
Total	12.6%	13.0%	13.4%	13.7%	14.0%
Op Inc. per Volume (thousand metric ton)					
Gruma USA	4.99	5.27	5.56	5.86	6.18
GIMSA	1.33	1.44	1.56	1.69	1.82
Gruma Europe	0.32	0.36	0.40	0.44	0.48
Gruma Centroamerica	2.15	2.24	2.33	2.42	2.52
USD/MXP Exchange Rate	NA	NA	NA	NA	NA

Source: Author's Projections

Exhibit 19 – Bear Case Projections

(MXP in millions)	2021E	2022E	2023E	2024E	2025E
Sales Volume (thousand metric tons)					
Gruma USA	1,533	1,560	1,588	1,615	1,644
GIMSA	2,146	2,195	2,244	2,294	2,346
Gruma Europe	404	403	403	402	402
Gruma Centroamerica	248	253	258	263	268
Total	4,331	4,411	4,492	4,575	4,660
Revenue (in millions of pesos)					
Gruma USA	50,186	51,448	52,741	54,066	55,425
GIMSA	24,518	25,948	27,460	29,061	30,754
Gruma Europe	5,478	5,390	5,304	5,219	5,136
Gruma Centroamerica	5,778	5,953	6,133	6,318	6,509
Oceania/Other	2,800	2,828	2,856	2,885	2,914
Total	88,761	91,566	94,494	97,549	100,737
Rev per Volume (thousand metric ton)					
Gruma USA	32.73	32.97	33.22	33.47	33.72
GIMSA	11.42	11.82	12.24	12.67	13.11
Gruma Europe	13.57	13.37	13.17	12.97	12.78
Gruma Centroamerica	23.31	23.55	23.78	24.02	24.26
Cost of Sales					
Gruma USA	28,655	29,504	30,377	31,276	32,200
GIMSA	17,525	18,612	19,765	20,990	22,290
Gruma Europe	4,150	4,098	4,045	3,994	3,943
Gruma Centroamerica	3,828	3,959	4,094	4,233	4,377
Oceania/Other	2,100	2,121	2,142	2,164	2,185
Total	56,259	58,293	60,423	62,656	64,995
COGS per Volume (thousand metric ton)					
Gruma USA	18.69	18.91	19.13	19.36	19.59
GIMSA	8.17	8.48	8.81	9.15	9.50
Gruma Europe	10.28	10.16	10.04	9.93	9.81
Gruma Centroamerica	15.45	15.66	15.87	16.09	16.31
Gross Profit					
Gruma USA	21,531	21,944	22,364	22,790	23,225
GIMSA	6,993	7,336	7,695	8,071	8,464
Gruma Europe	1,328	1,293	1,259	1,226	1,193
Gruma Centroamerica	1,950	1,994	2,039	2,085	2,132
Oceania/Other	700	707	714	721	728
Total	32,502	33,274	34,071	34,893	35,742
Gross Profit Margin					
Gruma USA	42.9%	42.7%	42.4%	42.2%	41.9%
GIMSA	28.5%	28.3%	28.0%	27.8%	27.5%
Gruma Europe	24.2%	24.0%	23.7%	23.5%	23.2%
Gruma Centroamerica	33.7%	33.5%	33.2%	33.0%	32.7%
Total	36.6%	36.3%	36.1%	35.8%	35.5%
SG&A					
Gruma USA	14,500	14,993	15,502	16,026	16,568
GIMSA	4,385	4,706	5,049	5,416	5,808
Gruma Europe	1,246	1,239	1,233	1,226	1,219
Gruma Centroamerica	1,454	1,504	1,556	1,609	1,664
Oceania/Other	600	606	612	618	624
Total	22,185	23,048	23,951	24,895	25,884
SG&A as % of Revenue					
Gruma USA	28.9%	29.1%	29.4%	29.6%	29.9%
GIMSA	17.9%	18.1%	18.4%	18.6%	18.9%
Gruma Europe	22.7%	23.0%	23.2%	23.5%	23.7%
Gruma Centroamerica	25.2%	25.3%	25.4%	25.5%	25.6%
Total	25.0%	25.2%	25.3%	25.5%	25.7%
Op Income					
Gruma USA	7,032	6,951	6,862	6,764	6,657
GIMSA	2,608	2,630	2,646	2,655	2,656
Gruma Europe	82	54	26	(0)	(26)
Gruma Centroamerica	496	490	483	476	467
Oceania/Other	100	101	102	103	104
Total	10,317	10,226	10,120	9,998	9,859
Op Income Margin					
Gruma USA	14.0%	13.5%	13.0%	12.5%	12.0%
GIMSA	10.6%	10.1%	9.6%	9.1%	8.6%
Gruma Europe	1.5%	1.0%	0.5%	(0.0%)	(0.5%)
Gruma Centroamerica	8.6%	8.2%	7.9%	7.5%	7.2%
Total	11.6%	11.2%	10.7%	10.2%	9.8%
Op Inc. per Volume (thousand metric ton)					
Gruma USA	4.59	4.46	4.32	4.19	4.05
GIMSA	1.22	1.20	1.18	1.16	1.13
Gruma Europe	0.20	0.13	0.07	(0.00)	(0.06)
Gruma Centroamerica	2.00	1.94	1.87	1.81	1.74
USD/MXP Exchange Rate	NA	NA	NA	NA	NA

Source: Author's Projections

Exhibit 20 – Asset Value Calculation

	<u>FY2020</u>	<u>Source/Assumptions</u>
Book Value of Equity	27,672	FY20 Book Value
<u>Adjustments</u>		
(+) PP&E	9,311	25% replication cost of FY20 Net PP&E
(+) Brand	9,110	10% Royalties on FY20 Sales
(+) Employees	1,309	See Calculation below
(-) Goodwill	3,467	All plant acquisitions fully integrated into Gruma
Asset Value	43,936	
<u>Employees</u>		
	<u>Data</u>	
Employees	21,824	5% growth from amount on FY19 Annual Report
Estimated Salary (MXP)	400,000	US\$20K/yr at 20 MXP/USD
Replacement Cost	15%	Relatively specialized employees
Adjustment	1,309	

Source: Gruma Annual and Quarterly Earnings Reports and Assumptions

Exhibit 21 – Earnings Power Value Calculation

	<u>FY2020</u>	<u>Smoothed</u>	<u>Source/Assumptions</u>
Revenue	91,103	84,245	Previous 2 year average
EBIT Margin	12.6%	12.3%	Previous 2 year average
EBIT	11,434	10,350	
Tax Rate	30.0%	30.0%	Mexican Corporate Tax Rate
NOPAT	8,004	7,245	
WACC	8.0%	8.0%	Assumption
EPV of Operating Business	100,048	90,565	
(+) Non-Operating Cash	2,035	2,035	25% of FY20 Cash Balance
(-) Debt	28,161	28,161	
EPV of Equity	73,921	64,439	

Source: Gruma Annual and Quarterly Earnings Reports and Assumptions

ⁱ <https://www.pewresearch.org/fact-tank/2020/07/07/u-s-hispanic-population-surpassed-60-million-in-2019-but-growth-has-slowed/>

ⁱⁱ Gruma 2021 Investor Presentation

ⁱⁱⁱ <https://www.bakingbusiness.com/articles/50851-gruma-benefits-from-defensive-nature-of-tortilla-business>

^{iv} <https://www.foodbusinessnews.net/articles/14000-a-new-take-on-tortillas>

^v <https://www.bakingbusiness.com/articles/53115-tortillas-growing-popularity-boosts-gruma-earnings>