

3 July 2024

## ARCOR S.A.I.C.

Arcor is a multinational corporation renowned for its diverse portfolio of food products such as sweets, chocolates, and biscuits, as well as industrial offerings including paper, cardboard, ingredients, and sweeteners. Operating on a global scale, Arcor's production facilities are situated across multiple countries including Argentina, Brazil, Chile, Mexico, Peru, and Angola. Together with Bagley Latinoamérica S.A., a joint venture with Grupo Danone where Arcor holds a 51% ownership, the company dominates the consumer goods sector throughout Latin America. Moreover, Arcor holds a significant 49% interest in Mastellone Hnos., a prominent dairy enterprise based in Argentina.

Arcor's results will be analyzed on a consolidated basis, including Arcor and all its subsidiaries. The company operates globally, with a substantial portion of its assets and liabilities in foreign currencies. Consequently, cash flows and balances will be evaluated in US dollars using the average or closing official exchange rate applicable for each period.

## Sales

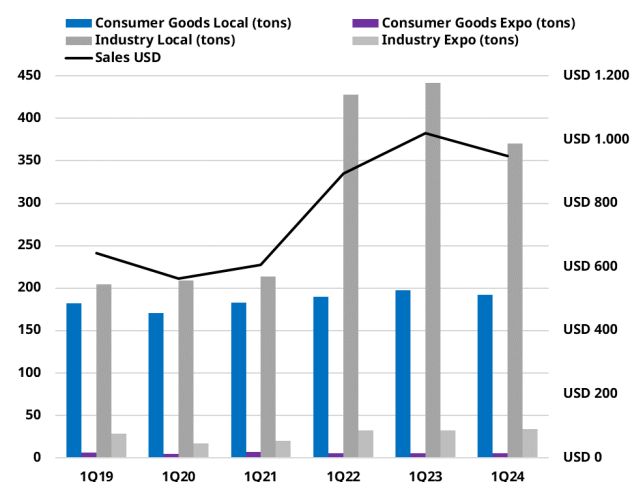
Arcor reported its latest results for 1Q24, ending on March 31. Sales reached USD 949 million, 7% lower than 1Q23 but 6% higher than 1Q22.

In 1Q24, local sales of industrial products, the fastest-growing segment within the company in recent years, saw a notable weakening. However, in consumer goods, Arcor managed to maintain volumes close to post-pandemic sales averages. Due to substantial currency depreciation at the end of 2023, local sales in dollars of sweets, chocolates, and biscuits experienced a severe contraction.

The acceleration of inflation in late 2023 adversely impacted real wages in Argentina, resulting in a notable decline in demand and subsequent decreases in local sales volumes for Arcor. In 1Q24, there was a marked 16% decrease in tons sold of industrial products compared to 1Q23. Similarly, 1Q24 also saw a weaker volume sold in consumer goods, with a 3% decline in local sales. In contrast, exports from Argentina in 1Q24 showed improvements of 5% in industrial products and 11% in consumer goods compared to the previous year.

In 1Q24, sales in Argentina constituted 66% of consolidated sales, while sales to foreign clients (exports from Argentina and sales from subsidiaries abroad) represents the remaining 34%. The share of international sales increased by 230 basis points compared to 1Q23. Growth in sales from foreign subsidiaries and Argentine exports contributed significantly to sustaining revenue in 1Q24.

### Sales and volumes for 1Q since 2019

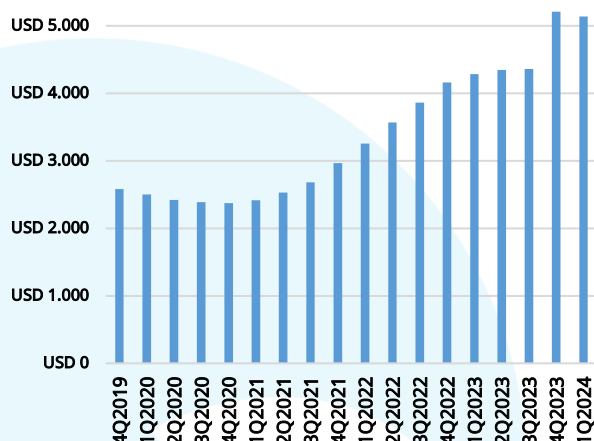


**Source:** Cucchiara Research based on financial statements.

Due to the high seasonality of the products, sales in 1Q are typically the weakest of the year. Over the last twelve months (LTM), Arcor's sales amounted to USD 5,136 million, nearly reaching record levels, only surpassed by the performance in FY2023.

In our last report, we highlighted the performance of 2022 ([see here](#)). Similarly, in 2023, Arcor maintained historically high sales volumes. Despite Argentina's 1.6% economic contraction that year, the company sold nearly 800 thousand tons of consumer products and approached nearly 2 million tons of industrial products sold, setting a new sales record in the local market.

**Sales in US dollars (LTM)**



Source: Cucchiara Research based on financial statements.

Analyzing sales outside the local market, Brazil increased its share to 10% of consolidated sales. In 1Q24, the Sweets and Chocolates category showed notable growth, increasing by 6% compared to 1Q23. Furthermore, during 1Q24, countries in the North, Central, and Overseas regions, as well as Southern subsidiaries, achieved increases of 10% and 19% in total sales, respectively, compared to 1Q23. In contrast, the Andean region experienced an 11% decline.

In 2023, Arcor's new production plant in Angola successfully commenced operations across all product lines under its brand. The company reports that the factory is now poised to triple its production capacity to meet the growing demand in the Angolan market and neighboring African countries.

Segments (mill. USD)	1Q24	% Seg	1Q23	% Seg	% Var	1Q22	% Seg	% Var
Argentina								
Sweets and Choco.	149.7	16%	196.9	19%	-24%	173.6	19%	-14%
Cookies	151.4	16%	160.4	16%	-6%	138.0	15%	10%
Foods	90.0	9%	86.0	8%	5%	69.0	8%	30%
Packaging	168.1	18%	167.7	16%	0%	150.2	17%	12%
Agribusiness	98.6	10%	119.6	12%	-18%	110.1	12%	-10%
Others industrials	0.1	0%	0.2	0%	-44%	0.2	0%	-51%
Brazil								
Sweets and Choco.	56.0	6%	52.6	5%	6%	44.0	5%	27%
Cookies	40.7	4%	40.9	4%	0%	30.8	3%	32%
Andeans								
Sweets and Choco.	41.4	4%	46.3	5%	-11%	39.5	4%	5%
Cookies	19.3	2%	19.4	2%	-1%	14.6	2%	33%
Packaging	31.1	3%	38.0	4%	-18%	47.2	5%	-34%
Others								
N., Ctr. & Overseas	49.3	5%	41.6	4%	19%	35.0	4%	41%
Souther region	44.6	5%	40.4	4%	10%	32.4	4%	38%
Agribusiness expo.	8.0	1%	10.1	1%	-21%	9.3	1%	-14%
Others countries	0.0	0%	0.0	0%	376%	0.0	0%	511%
Total	948.5	100%	1,020.3	100%	-7%	894.0	100%	6%

Source: Cucchiara Research based on financial statements.

## Margins and EBITDA

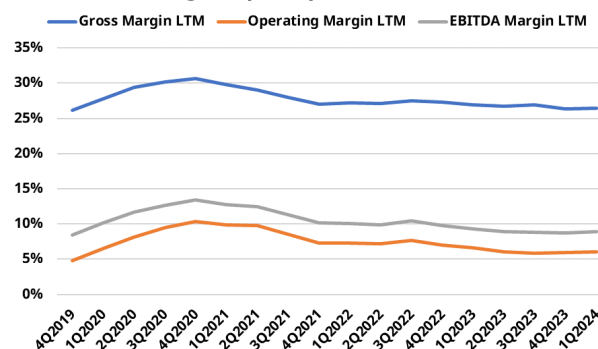
In 1Q24, Arcor achieved an EBITDA of USD 93 million, marking a 4% increase compared to 1Q23 but a 4% decrease compared to 1Q22. The LTM EBITDA reached USD 459 million, setting a new record that surpassed FY2023.

Arcor (mill. of US dollars)	1Q24	4Q23	Var (%)	1Q23	Var (%)	1Q22	Var (%)
Sales	949	2,132	-56%	1,020	-7%	894	6%
Cost of sales	684	1,607	-57%	740	-8%	634	8%
Gross profit	263	522	-50%	277	-5%	260	1%
Operating profit	71	87	-18%	70	2%	77	-8%
EBITDA	93	144	-35%	90	4%	97	-4%
EBITDA (LTM)	459	456	1%	400	15%	326	41%

Source: Cucchiara Research based on financial statements.

Despite this strong performance, Arcor's margins continue to decline. Margins deteriorated by 40 to 60 basis points compared to 1Q23. Similarly, compared to 1Q22, the decline worsened by 80 to 130 basis points.

**Margins per quarter (LTM)**



Source: Cucchiara Research based on financial statements.

The challenge of maintaining margins arises from cost increases outpacing revenue growth in Argentina. This becomes clearer when analyzing EBITDA in Argentine pesos adjusted for inflation. In 2023, EBITDA declined by 14% compared to 2022, reflecting a 2% decrease in sales and a 6% decline in gross profit, alongside increases of 2% in marketing expenses and 4% in administrative expenses.

The context of high inflation and exchange rate appreciation until late last year affected Arcor's operational results. The evolution of costs in US dollars will need to be closely monitored in upcoming quarters, so that macroeconomic distortions do not significantly impact the company's margins over time.

### Debt Profile

Arcor's total financial debt stood at USD 699 million as of the end of 1Q24. Corporate bonds accounted for 63%, bank loans for 35%, and the remaining 2% is related to discounts and confirming arrangements. Of the total debt, 71% was denominated in foreign currency (61% in USD, 5% in BRL, 4% in EUR, and 1% in CLP), with the remaining 29% in Argentine pesos.

Debt increased by 14% compared to 4Q23, primarily driven by Arcor and its subsidiaries securing new foreign currency bank loans. The company also opened a new credit line of USD 40 million with Rabobank. However, financial debt decreased compared to 1Q23 due to a significant reduction in local currency debt and Arcor's early redemption of the remaining ARCOR 6 07/06/23 corporate bond, which had an outstanding balance of USD 128 million as of May 2023.

Bond	Ticker	Issue date	Currency	Law	Outst. (mill.)	Coupon	Maturity
Cl. 17	RCCIO	10/20/21	UVA	Arg	28	Fix 0.98%	10/20/25
Cl. 18	RCCJO	11/9/22	USD	NY	265	Fix 8.5%	10/9/27
Cl. 19	RCCKO	5/12/23	ARS	Arg	8,460	BADLAR +0.99%	5/12/24
Cl. 20	RCCLO	5/12/23	ARS	Arg	13,540	BADLAR +3.95%	5/12/25
Cl. 21	RCCMO	5/22/23	USD	Arg	77	Fix 3.5%	11/22/25
Cl. 22	RCCNO	10/6/23	ARS	Arg	17,000	BADLAR +3.49%	10/6/24

**Source:** Cucchiara Research based on Bloomberg.

Net financial debt amounted to USD 428 million at the end of 1Q24, offset by USD 271 million in liquid financial assets. Cash and equivalents totaled USD 137 million, with 63% held in foreign currency. Arcor also included BOPREAL dollar-denominated government bonds and mutual funds amounting to USD 134 million.

Therefore, the debt coverage ratio improved to 0.9x times, a notable enhancement compared to the end of 1Q23. The significant reduction in peso-denominated debt and consistent income despite margin declines reaffirmed a very low leverage level. The ratio remained stable compared to 4Q23.

However, the interest coverage ratio worsened to 1.3x times. In this instance, the ratio deteriorated significantly compared to 1Q23, primarily due to the impact of interest payments on debt denominated in pesos adjusted to the BADLAR rate, calculated at a heavily lagged official exchange rate over the LTM.

Arcor (mill. of US dollars)	1Q24	4Q23	Var (%)	1Q23	Var (%)
Financial debt	699	614	14%	723	-3%
Cash & Financial Assets	271	221	23%	151	79%
Net debt	428	393	9%	571	-25%
EBITDA (LTM)	459	456	1%	400	15%
Net debt/EBITDA	0.9	0.9	0.1	1.4	-0.5
Interest (LTM)	365	365	0%	201	82%
EBITDA/Interest	1.3	1.3	0.0	2.0	-0.7

**Source:** Cucchiara Research based on financial statements.

To further stress the analysis, we can annualize EBITDA for the remainder of 2024 by extrapolating linearly from 1Q24 results. Given the subdued start to the year, Arcor would achieve an annual EBITDA of USD 372 million, resulting in a leverage ratio of 1.2x. Essentially, even in a pessimistic scenario where seasonal

factors do not favor the company for the rest of the year, leverage would remain exceptionally low, consistent with previous periods.

### ARCOR 8 ¼ 10/09/27



Source: Bloomberg.

ARCOR 2027 under NY law has an 8.25% coupon rate with semi-annual payments. It pays installments of 14.3% seven times, starting from October 2024. The bond is traded at 101.5% to 102.5% of its face value, with a yield to maturity of 7%. It has a modified duration of 1.6 years and the minimum tradable unit is 1 bond.

### Outlook

2024 will prove to be a challenging year for the company. Demand for industrial and consumer products in Argentina remains highly sensitive to the economic contraction. According to the latest IMF estimates, a 3.5% decline in GDP is projected for 2024.

Without a recovery in real wages, Arcor will need to increasingly rely on its international business operations. It will be crucial for the company to continue expanding its sales volumes in external markets, whether through exports from

Argentina or through production and sales from its subsidiaries abroad. Significant progress was observed in this regard in 1Q24.

Throughout 2024, the ARCOR 8 ¼ 10/09/27 bond traded for most of the year around 101%, offering yields close to 8%. These prices were highly attractive for what we consider a high-quality Argentine corporate bond. Currently, the bond trades with a relatively narrow spread. As mentioned in previous reports, Arcor 2027 is recommended for investors seeking quality and short-term cash flows.

Arcor is regarded by the market as one of the highest-quality issuers in Argentina. Its low leverage levels and access to international credit provide greater security to bondholders. With this perspective, our US dollar-denominated fixed income funds maintain a weighting in the 2027 bond and remain vigilant for new opportunities that the volatile Argentine market may present.

Kind regards,

Juan José Battaglia  
[juan@cucchiara.com.ar](mailto:juan@cucchiara.com.ar)

Manuel Carvalho  
[manuel@cucchiara.com.ar](mailto:manuel@cucchiara.com.ar)

Ian Weber  
[ian@cucchiara.com.ar](mailto:ian@cucchiara.com.ar)

Tomás Mangino  
[tomasmandino@cucchiara.com.ar](mailto:tomasmandino@cucchiara.com.ar)