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**MEXARREND**<sup>®</sup>

LEASING INNOVATION

**Fourth Quarter 2020  
Earnings Conference Call**

**Transcript**

# Speakers

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**ALEJANDRO MONZÓ**

Chief Executive Officer



**ABELARDO LOSCOS**

Chief Financial Officer

# Call Transcript

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## OPERATOR

Good morning everyone, my name is Emma and I will be your conference operator. Welcome to Mexarrend's fourth quarter 2020 conference call. All lines have been placed on mute to prevent any background noise. There will be a question and answer session after the speakers' opening remarks and instructions will be given at that time.

Mexarrend issued its quarterly report on Wednesday, February 24<sup>th</sup> after the market closed. If you did not receive the report, please contact the Investor Relations team and they will email it to you. Please note that this call is for investors and analysts only and questions from the media will not be taken, nor should the call be reported on.

Any forward-looking statements made during this conference call are based on information that is currently available. Please refer to the disclaimer in the earnings release for guidance on this matter.

Today we are joined by Mexarrend's Chief Executive Officer, Mr. Alejandro Monzó Rosa, and Chief Financial Officer, Mr. Abelardo Loscos, both of whom will discuss the Company's performance. Also on the call is Mr. Ramón Barreda, Mexarrend's Investor Relations Officer.

I will now turn over the call to Mr. Alejandro Monzó. Please go ahead.

## Alejandro Monzó, CEO

Good morning and welcome to our fourth quarter 2020 conference call and thank you for joining.

I would like to start by providing some more detail on our digitalization project, Mexarrend Digital, as well as highlighting other key achievements during the year, including the successful launched of our "lending as a service" product offering, the diversification of our sources of financing and the capitalization which was agreed upon at the end of December, before touching on our ESG initiatives.

2020 presented many unforeseen challenges and the ability of the Company to be agile and adapt to the changing macroeconomic landscape was key.

Back in 2019, we started an aggressive digital transformation to better serve the Mexican market. In the third quarter of 2020 we launched Centeo, our joint venture with Zinobe, a leading fintech firm in Colombia in which Mexarrend holds a 51% stake. Centeo uses technology and data processing to provide fast and flexible credit to finance inventory and raw material at the core of the SME production process as well as cash advances. All, heavily supported with state-of-the-art technology both in terms of client experience and risk scoring. This joint venture combines the strengths and expertise of both companies and generates positive externalities accelerating Mexarrend's digital transformation. Centeo's addressable market is large and heavily underserved hence providing significant growth potential.

In the fourth quarter 2020 we finalized the development of Mexarrend's digital platform. This month we successfully launched it for our Vendor Financing portfolio and by the end of the first quarter we will have it fully operational for all our product offering. This marks an unprecedented milestone in Mexarrend 20 years of experience and positions the company in a great place to take advantage of current market trends. We clearly understand that such digital transformation is and always will be a work in progress and significant resources are being deployed to take advantage of the pace at which technology evolves.

In spite of the uncertainty that marked the best part of 2020, we successfully launched our lending as a service unit, which involves the origination, structuring, funding and servicing of transactions without carrying the credit risk in our balance sheet. In essence we are leveraging all of our infrastructure, market reach and experience to generate income without consuming capital. The first two transactions were closed in Q4 2020 with a notional value of 17 million dollars. We are very optimistic with this very innovative business line and expect great results to come in the near future.

On December 30<sup>th</sup> last year, Mexarrend's three groups of shareholders demonstrated their continued commitment by agreeing to an additional capitalization of 10 million US dollars. This strengthens our balance sheet and enables us to grow our portfolio in a year in which we expect an increasing demand for leasing products as the economy recovers. This capitalization will be reflected on the Balance Sheet in the first quarter of 2021.

Despite the difficult macroeconomic environment, we diversified our sources of financing in 2020. In October we announced the approval of a 45 million US dollar

loan, with a 10-year term, from the US International Development Finance Corporation, or the 'DFC'. A letter of commitment has been signed by both parties and documentation is expected to be finalized in March.

In addition to the loan from the DFC, two weeks ago we announced that Mexarrend had signed an agreement with Credit Suisse for a 3 billion peso warehousing revolving credit facility, which is structured to permit additional financing of up to 4.2 billion pesos. The resources from both the DFC and Credit Suisse will be used to fund growth and will allow us to take advantage of opportunities that arise in the coming months, focusing on sectors that have shown resilience in the face of the current economic situation. These warehousing facilities, for its nature, allows for a more efficient use of liquidity. We are confident that this support will put us in a strong position as we emerge from this global economic crisis.

We took some important steps forward in 2020 in terms of ESG: we were officially recognized as an Empresa Socialmente Responsable or Socially Responsible Company and made a commitment to adhere to 10 of the Sustainable Development Goals of the UN Global Compact, integrating them into our business strategy. In the fourth quarter our relationship with the UN was ratified, resulting in a 3-year association. As part of this relationship, we have agreed the annual support to be provided for education in some of Mexico's most deprived states, including Guerrero, Chiapas and Oaxaca, as we regard education to be one of the most important pillars for long-term well-being. We remain committed to improving our ESG impact and our first sustainability report will be published next month. In addition, as mentioned last quarter, we continue to conduct our business under our Environmental and Social Risk Management System, SARAS, based on the International Finance Corporation Performance Standards. We are particularly proud of the loan granted by the DFC as it demonstrates their support for Mexarrend's ESG practices and our mission to improve credit access for small and medium-sized enterprises in Mexico.

We remain focused on maintaining a solid portfolio. In the 4Q the NPL ratio increased by a marginal 20 basis points compared to the third quarter to reach 6.3%, yet this is only an increase of 1 percentage point compared to 2019, which we view as a positive achievement, given the difficult circumstances that prevailed throughout most of 2020. As we have mentioned previously, all credits are duly collateralized either directly, though leased equipment, or indirectly, though mortgage guarantees, pledges etc. In most cases, high levels of collateralization are met, resulting in 1.8x coverage of capital

at risk, which ensures that our portfolio remains well protected. In the fourth quarter, we continued to originate new transactions, which were paused for the most part in the second quarter and gradually reinitiated in the third quarter, taking prudent steps to ensure that we were working with sectors which have proven resilient during the pandemic, thus maintaining strong asset quality.

We believe that our debt profile is manageable in the current context, with only 17% of our debt maturing in the short-term, and 75% due in 2024. Of the short-term maturities, a significant proportion corresponds to the Cebures program on the local capital market, which we have participated in for over 10 years. Over the year we were able to refinance most of these maturities, despite the adverse market conditions, demonstrating Mexarrend's solid reputation in the market. Most of our leverage corresponds to the international bond issued in July 2019, which consists of a bullet payment in 2024, which is fully hedged against changes in the exchange rate.

Moving on to our results for the quarter, total revenue fell by 4.1% compared to the same period in 2019. However, this was a smaller drop than in the third quarter and was due to the decision to slow originations during the quarter, as a result of the current economic climate and Mexarrend's conservative approach to risk.

Gross profit for the full year decreased by 22.8% compared to the previous year, and by 28.3% for the quarter compared to the same quarter in 2019. This decrease in profit was largely due to lower originations during the quarter. Yet, our gross profit margin was a solid 30.5% for the year and 30.0% for the quarter, remaining high enough to generate adequate returns on capital deployed.

To conclude, despite the unforeseen challenges presented in 2020, our business model has remained resilient, our strategy is clear, and we are excited by the successful conclusion of our digital transformation and expect this to have a very disruptive and positive impact in our target markets. We believe that as 2021 progresses, originations will continue to increase. After the agreement of additional financing from the DFC and Credit Suisse as well as our own capitalization, we are well placed to take advantage of stronger demand in the coming months; and thereby be in a position to support Mexican entrepreneurs through these times and enable them to succeed in the months and years ahead.

I would now like to turn the call over to Abelardo.

## Abelardo Loscos, CFO

Thank you, Alejandro and to everyone for joining us today.

Moving on to our financials, as Alejandro mentioned, 4Q20 revenues fell by 4.1% compared to the same period in 2019 to \$397 million pesos. This was due to the effect of low originations on revenue growth, although this was less than the 9.3% decrease reported in 3Q20. However, comparing 12M19 to 12M20, total revenue was up by 2.4% to \$1.511 billion pesos.

As of the closing of the quarter, we maintained a healthy cash position of \$836 million pesos, demonstrating the Company's ability to manage collections and expenses. Operating income for the period decreased by 31.8% and by 38.7% for the full year, due to the low number of new transactions for the quarter. On the other hand, operating expenses also decreased by 26.0% for the quarter and by 9.3% for the full year versus the same periods in 2019, reflecting the cost controls and the drop in commissions related to low origination during the quarter.

Gross profit for year decreased by 22.8%, compared to the same period in 2019, to \$461 million pesos with a margin of 30.5%; and for the quarter decreased by 28.3% to \$119 million pesos and a margin of 30%. Over the quarter, earnings were impacted by low originations and related events in three ways: (i) a reduction in commissions generated when registering new transactions; (ii) lower income from the financial operating margin; and (iii) a small reduction in income from the low number of operating lease operations that are still part of the Plan Cero.

In 4Q20 net income stood at \$22 million pesos, and at \$40 million for the cumulative period to the end of December, demonstrating Mexarrend's financial strength in times of economic crisis. There was a significant increase in the comprehensive financing result for 4Q20 versus 4Q19, increasing from \$19 million pesos to \$98 million pesos but a decrease of 25.8% for the full year.

Financial debt decreased by \$920 million pesos in the quarter and by \$287 million in comparison to the period ending in December 2019. A large part of this variation is due to exchange rate fluctuation.

There continues to be a negative effect on capital in the Other Comprehensive Income account due to exchange rate fluctuations and the valuation of financial derivative

instruments adjusted for the value of option premiums for \$130 million pesos. However, this is less than the \$330 million pesos and \$375 million pesos reported in 3Q20 and 2Q20 respectively, due to the appreciation of the exchange rate over the period.

The total portfolio reached over \$9 billion pesos at the end of 2020, an increase of 10.1% compared to the same period in the previous year, reflecting the roll-over of existing leases, previous originations and a small number of originations during the fourth quarter of the year. The consumer goods sector continued to represent the majority of our portfolio at 40%, with the industrials sector not far behind at 37%. The majority of our portfolio continues to be based in Mexico City and the State of Mexico with 70% of clients split almost equally between the two regions. The remaining 30% comes from a combination of other states, underlining our geographic diversity.

Total assets at the end of December 2020 remained fairly even compared to the same period last year at \$10.496 billion pesos. This is due to two factors: the decrease in available cash as a result of the placement of leases with the proceeds of the 2024 bond.

Total liabilities increased by 1.2% compared to the end of December 2019, reaching \$9.052 billion pesos, mainly explained by exchange rate fluctuations.

This concludes my remarks, thank you all for listening, I am now going to hand the call back to the operator for the Q&A.

## Q&A SESSION

### Operator:

We will now conduct a Q&A session. If you would like to ask a question, please press the “raise your hand button” located at the bottom of the screen, if you are connected via telephone, please dial \*9. We remind you that all lines have been placed on mute. When it is your turn to ask a question, you will be unmuted. If you have placed yourself on mute you will need to unmute yourself to ask your question.

We will now pause for questions.

Our speakers today are Alejandro Monzó, Chief Executive Officer of Mexarrend and Mexarrend’s Chief Financial Officer, Abelardo Loscos. They would both be happy to answer any questions you may have about Mexarrend’s fourth quarter 2020 results.



Our first question comes from the line of Andrew Seiz. Please state your company name and ask your question. Thank you.

**Andrew Seiz - BFAM Partners North America LLC**

Q. Does the plan for equity injection for another 10 million still exist?

A. Yes, the option to inject more capital in the future at the same valuation still remains. Commitment of our shareholders continues if needed.

**Operator**

Thank you for your question Andrew.

We remind you that you can press \*9 to ask a question from a phone line or press the “raise your hand” button at the bottom of your computer screen.

Our next question comes from the line of Adrian Garcia, please state your company name and ask your question. Thank you.

**Adrian Garcia – Invesco**

Q. In terms of your cash position, there is a shorter reduction. Could you walk us through what do you think of this cash position and give us some colour going forward?

A. The cash balance was very high because of the resources of the 2019 bond issued in July. We are very focused on being very efficient in terms of our cash balance. We have committed lines with Credit Suisse which is a positive.

**Operator**

Thank you for your question Adrian.

We will pause once more for any further questions.

To ask a question from a phone line dial \*9 or if you have joined the call over the internet press the “raise your hand” button at the bottom of your screen.

Our next question comes from Andrew Seiz. Please go ahead with your question.  
Thank you.

**Andrew Seiz - BFAM Partners North America LLC**

Q. Could you give us a sense of what you're seeing right now in terms of demand and what kind of guidance can you give us on your portfolio.

A. In terms of demand for our products, it still not in the same levels prior to COVID, we are starting to see an increase but it's taking much longer for clients to close transactions. The increase in our portfolio will depend on the current situation and the support brought by new the warehousing facility from Credit Suisse.

**Operator**

Thank you for your question Andrew.

We will now pause for a couple of moments for any further questions.

We have not received any further questions at this point so that concludes our question and answer session. Thank you. I would now like to hand the call back over to Alejandro Monzó for some closing remarks.

## **CLOSING REMARKS**

**Alejandro Monzó, CEO**

Thank you all for joining us today. Please reach out to us if you have any additional questions or concerns. We appreciate your interest in Mexarrend and look forward to speaking with you again soon.

**Operator**

Thank you. That concludes today's call, you may now disconnect.

