ALSEA

REPORT OPINION: BUY

MARKET OUTPERFORMER 2019
PRICE TARGET P$60.41

ALSEA's 3Q19 The flexibility of their business model, their focus on operational excellence and the strength of their brands have allowed them to achieve solid results.

- **Same Store Sales** (SSS) grew **6.3%.**
  - ✔ Mexico's SSS grew 3.6%, Europe's 2.6% and South America's 18.6%.
- **EBITDA increased by 25.7%,** and the EBITDA margin reached 13.4%.
- **4,495 Total Units**, including 472 units from the Grupo Vips (Sigla) acquisition in Spain, plus 299 Starbucks units in Francia-Benelux and 136 openings compared to the third quarter of 2018.
- **Burger King in Colombia and P.F. Chang in Argentina were sold** as part of the portfolio optimization strategy.
- **Net Debt / EBITDA decreased to 3.3x** from 3.5x reported on 2Q19.

Alsea will continue to be **the largest subfranchisee of the brand in the country**, operating 181 corporate stores that have reported same-store sales performance above double digits in the past eight quarters.

In **Europe**, they are **realizing important synergies in line with expectations and continue to improve their product offering and service** to meet the demand of each country. And in South America, despite the difficult environment, they have managed to improve margins thanks to operational efficiencies and strict cost control.

To date, they have agreements in all their geographies with the main food aggregators; in **Colombia they are carrying out tests with Domino's** to be present in the platform of a particular aggregator. So far, they have achieved significant increases in orders.

Their intention is to **use multiple sales channels**, leaving the final purchasing decision in the hands of the customers.

It is worth mentioning that the **option to sell 71 Burger King units in Mexico**, which it had expected to be exercised by the end of the year, **will no longer be executed**.

QUARTERLY REPORT
Sep 30, 2019

ALSEA

Improved, 3Q19 outperformed on account of stronger top line and profitability margins.

3Q19 Highlights

Recent Europe acquisitions gave a boost to top line. Consolidated revenues for the 3rd quarter stood at P$14.3 billion (+29% YOY), in line with expectations. 3Q19 increase in top line came hand in hand with a 566-unit expansion (376 acquisition of Grupo Vips and 81 Starbucks in France-Benelux), together with a positive SSS hike of 6.3%.

When analyzing each market independently, Mexico posted a 3.6% SSS growth, above expectations. Europe dragged consolidated SSS levels down with a 2.6% for 3Q19. Total sales in Europe, however, were positively affected by the integration of the acquisitions, the opening of digital kiosks for Burger King and the openings and remodeling from 2018, posting a 124.6% YOY increase. South America's total sales, tumbled by 1.9% YOY, hampered by the macroeconomic situation that prevails in Argentina (with SSS below inflation and a 50% F/X depreciation), coupled with Colombia's tax reform.

Profitability slightly above expectations. Consolidated EBITDA posted an 25.7% increase to 1,915 million pesos, compared to 1,523 million pesos in the third quarter of the previous year. The total increase in EBITDA was 392 million pesos. Yet affected by a -120 bp. lower margin related mainly attributable to new business mix, derived from the inclusion of recent acquisitions in the company portfolio.

Net income for the quarter slumped by 40.5%, largely explained by a 180-bp. increase in operating expenses mainly due to debt rising as a result of the incorporation of the units acquired in Europe (leading to a P$170 million hike in interest expenses).

Leverage & FCF. A P$640 million FCF burn, together with the increased leverage of the Vips (P$ 11 bn.) and Starbucks France+Benelux acquisitions (P$1.1 bn.), left ALSEA's proforma Net Debt/EBITDA ratio at 3.8x.

Stock information

Last Price	P$51.77	**Stock returns**	
No. Shares ('000s)	829,858	1M	8.12%
Mkt Cap (P$ Million)	$42,961	3M	30.73%
		6M	20.76%
Net Debt (P$ Million)	$50,091.2	1 Yr	-3.97%
		3 Yrs	-8.30%
Max 52w	P$56.74	5 Yrs	4.83%
Min 52w	P$33.5		

Valuation Ratios (Majority Figures)

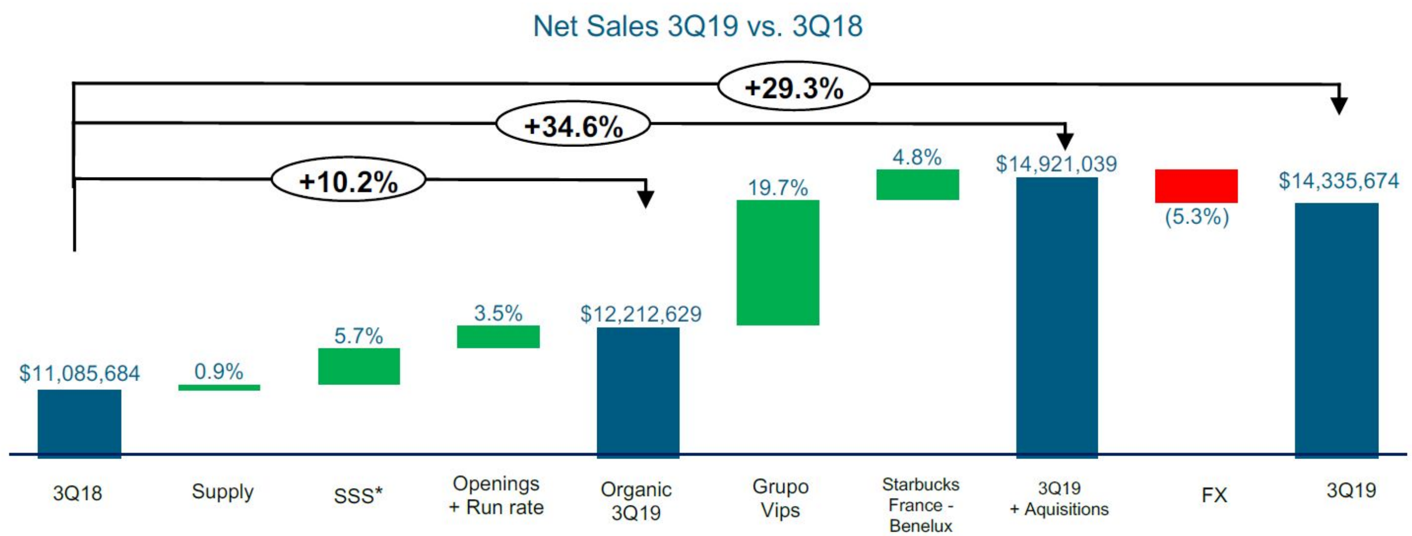
Financial Estimates

—MXN Million	2018	2019e	2020e	2021e	2022e	2023e
Revenues	46,157	59,923	65,725	72,485	77,386	80,600
% YOY	8.5%	29.8%	9.7%	10.3%	6.8%	4.2%
Op. Profit	3,345	2,079	3,544	4,853	6,276	7,372
Op. Mg	7.2%	3.5%	5.4%	6.7%	8.1%	9.1%
EBITDA	6,368	7,764	9,257	10,496	11,786	12,701
% YOY	8.7%	21.9%	19.2%	13.4%	12.3%	7.8%
EBITDA Mg.	13.8%	13.0%	14.1%	14.5%	15.2%	15.8%
Net Profit	1,006	-149	700	1,585	2,619	3,380
% YOY	54.2%	-114.8%	568.5%	126.5%	65.2%	29.0%
Net Mg.	2.2%	-0.2%	1.1%	2.2%	3.4%	4.2%
Op. FCF	5,917	5,313	6,552	7,439	8,261	8,784
FCF	1,520	-2,109	1,295	2,538	4,339	4,717
Net Debt	23,622	29,642	27,156	25,261	21,621	17,244

Balance Sheet

—MXN Million	2018	2019e	2020e	2021e	2022e	2023e
Cash	1,988	2,714	4,839	8,147	13,266	18,943
Current Assets	4,585	4,893	5,344	5,869	6,242	6,477
Fixed Assets	17,993	25,881	26,049	26,082	25,419	24,994
Other LT Assets	28,494	24,618	23,372	22,155	20,973	19,835
Total Assets	53,060	65,591	68,235	72,409	77,637	83,369
ST Debt	2,588	3,370	3,316	3,462	3,615	3,750
Current Liabilities	14,438	13,542	14,187	15,120	15,824	16,305
LT Debt	23,022	30,333	29,840	31,158	32,536	33,749
LT Liabilities	25,663	30,813	32,166	33,484	34,862	36,075
Total Liabilities	40,101	44,355	46,353	48,604	50,687	52,380
Maj. Equity	12,958	21,236	21,882	23,806	26,950	30,989

A glimpse to TOP LINE



* The percentage of same-store sales contribution is the effect on the total revenue base

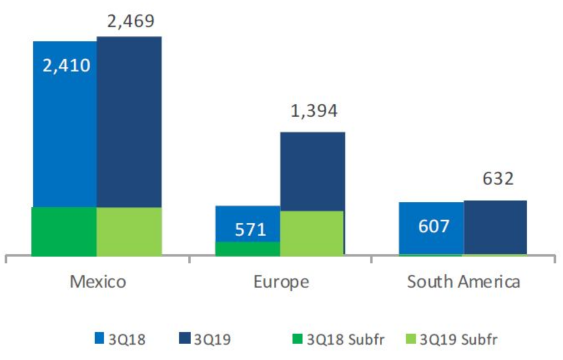
FINANCIAL SUMMARY

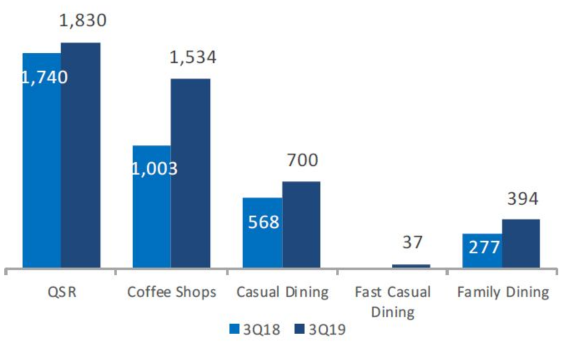
	3Q 19	3Q 18	Var %	9M19	9M18	Var %
Same-store sales	6.3%	3.8%	65.8%	5.7%	4.8%	18.8%
Sales	$14,336	$11,086	29.3%	$42,449	$33,292	27.5%
Gross Profit	10,110	7,651	32.1%	29,872	23,128	29.2%
EBITDA (1)	1,915	1,523	25.7%	5,292	4,520	17.1%
EBITDA Margin	*13.4%*	*13.7%*	*(30) bps*	*12.5%*	*13.6%*	*(110) bps*
Operating income	966	812	19.0%	2,425	2,313	4.9%
Net income	267	311	(14.3)%	645	879	(26.7)%
Net income margin	*1.9%*	*2.8%*	*(90) bps*	*1.5%*	*2.6%*	*(110) bps*
ROIC	8.3%	12.0%	(370) bps	8.3%	12.0%	(370) bps
ROE	7.8%	15.2%	(740) bps	7.8%	15.2%	(740) bps
Net Debt/EBITDA	3.3 x	2.1 x	N.A.	3.3 x	2.1 x	N.A.
EPS (2)	0.92	1.70	(45.9)%	0.92	1.70	(45.9)%

(1) EBITDA is defined as operating income before depreciation and amortization. * Figures in million pesos, except EPS

(2) EPS is earnings per share for the last 12 months. In 4Q18 only the result of Alsea is contemplated, without considering Grupo Vips.

NUMBER OF UNITS*





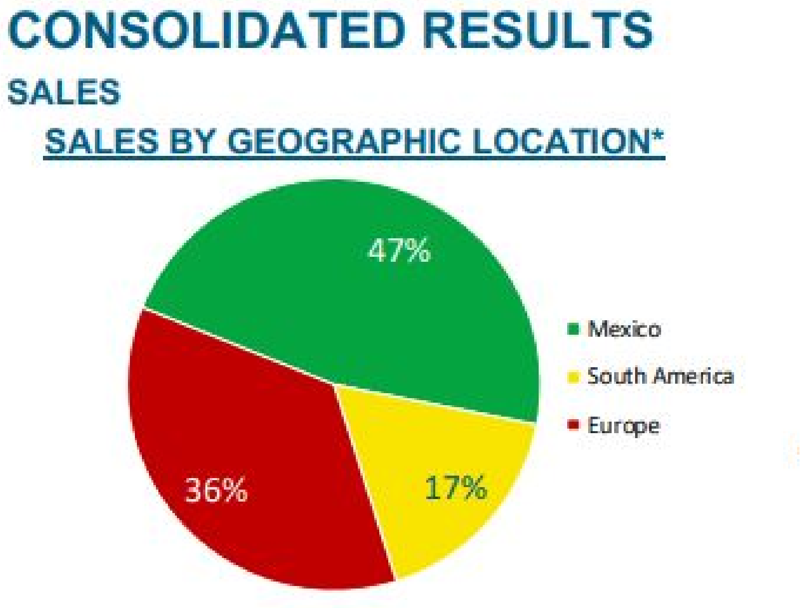
INVESTMENT THESIS

Information Brief

- Same Store Sales (SSS) grew 6.3%.
  - Mexico's SSS grew 3.6%
  - Europe's 2.6%
  - South America's 18.6%
- EBITDA* increased by 25.7%, and the EBITDA* margin reached 13.4%.
- 4,495 Total Units, including 472 units from the Grupo Vips (Sigla) acquisition in Spain, plus 299 Starbucks units in Francia-Benelux and 136 openings compared to the third quarter of 2018. Burger King in Colombia and P.F. Chang in Argentina were sold as part of the portfolio optimization strategy
- Net Debt / EBITDA decreased to 3.3x from 3.5x reported on 2Q19
- Portafolio optimization strategy selling BK and P.F. Changs in Colombia.

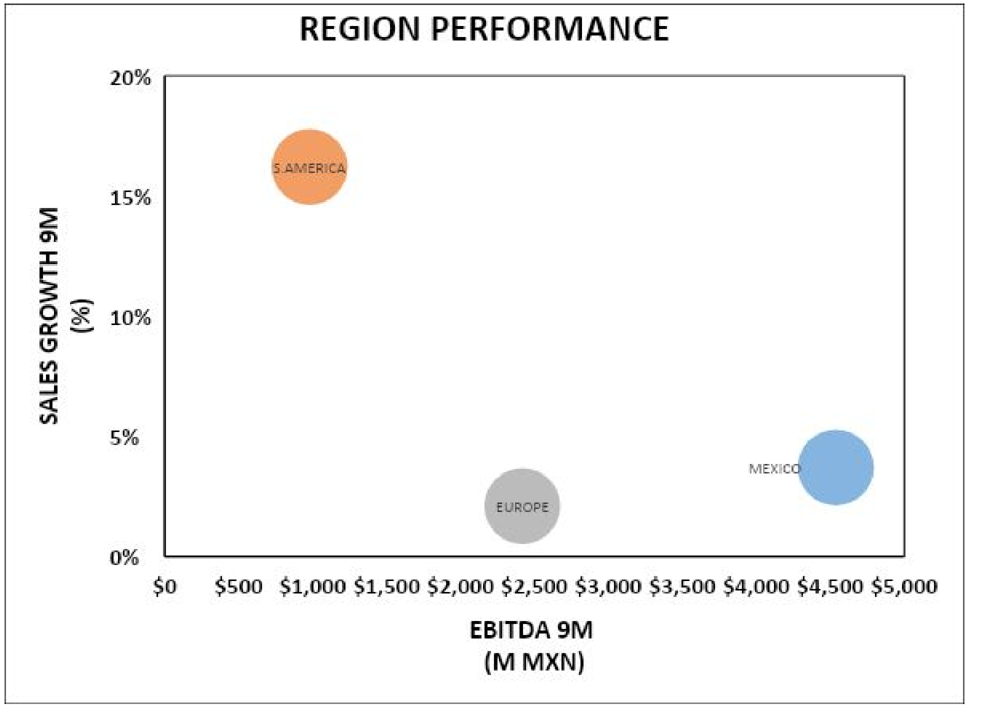
Highlights

- The company continues buying units outside of Mexico, as the economic environment in the country doesn't change, this diversification makes the stock attractive from a diversification point of view



- The company is not only focused on the top line, it also implemented some efficiency initiatives that had a direct impact on EBITDA
- The improvement of 150 basis points in cost of sales related to the positive effect from business mix, the performance improvement of the Operations Center (COA) and greater participation in Alsea Europe.
- The improvement in the EBITDA margin by 150 basis points in Alsea South America, mainly driven by the operations of Chile and Colombia compared to the same period of the previous year, coupled with the positive effect from the recent divestitures in the region.
- In South America administrative expenses decreased by 66 basis points as a result of increased operational efficiency

- As we can see on the graph the Europe Region hold an interesting potential to increase its growth rate, this means that the performance and the value of ALSEA could be much better



VALUATION

		2019e	2020e	2021e	2022e	2023e	2024e	Perpetuity
EBIT	$	4,249,500	$5,008,500	$5,017,969	$6,481,581	$7,610,184	$8,514,651	
Tax	$	1,274,850	$1,502,550	$1,505,391	$1,944,474	$2,283,055	$2,554,395	
D&A	$	6,735,500	$5,713,170	$5,642,814	$5,510,147	$5,328,365	$5,172,041	
NOPAT	$	9,710,150	$9,219,120	$9,155,392	$10,047,254	$10,655,494	$11,132,297	
Change in NWC		$7,064	$159,088	$211,324	$131,914	$75,668	$8,574	
Operating Cash Flow	$	9,717,214	$8,441,956	$9,366,716	$10,179,168	$10,731,162	$11,140,871	
CAPEX		($4,231,319)	($6,257,311)	($4,901,398)	($3,922,195)	($4,066,827)	($3,920,903)	
Free Cash Flow		$5,485,895	$2,184,645	$4,465,318	$6,256,973	$6,664,335	$7,219,968	$117,010,103
NPV	$	101,670,586						
Net Debt	$	50,090,000						
Minority Equity	$	1,451,943						
Equity Value	$	50,128,643						
Shares Outstanding (000s		829,858						
Target Price	**$**	**60.41**						

ALSEA	
% of Equity	42.2%
% Debt	57.8%
Risk Free Rate*	5.0%
Beta	0.91
Equity Risk Premiur	7.0%
Cost of Equity	10.1%
Cost of Debt	8.3%
Tax Rate	30.0%
WACC	7.6%
Perpetual Growth	1.5%

Stock Performance