MOODY'S

Rating Action: **Moody's upgrades Bimbo's ratings to Baa1; outlook is stable.**

21 Apr 2023

New York, April 21, 2023 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of Grupo Bimbo, S.A.B. de C.V. ("Bimbo"), including its senior unsecured ratings to Baa1. The rating outlook is stable.

The following ratings/assessments are affected by today's action:

Ratings upgraded:

..Issuer: Grupo Bimbo, S.A.B. de C.V.

.... Issuer Rating, Upgraded to Baa1 from Baa2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

..Issuer: Bimbo Bakeries USA, Inc.

....Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

Outlook Actions:

..Issuer: Grupo Bimbo, S.A.B. de C.V.

....Outlook, Remains Stable

RATINGS RATIONALE

The upgrade reflects the improvement of Bimbo's operating results and leverage metrics. Since 2017, when the company acquired East Balt Bakeries operations in the US - its last large debt funded acquisition- it has been able to consistently reduce leverage to 2.0x Moody's-adjusted debt to EBITDA in the end of 2022 from 4.0x. Likewise, Bimbo improved Moody's-adjusted EBITA to interest expense during the period to 5.0x from 3.2x. Bimbo's Baa1 ratings also incorporate the company's solid business position as a global leading producer of baked goods with a very strong brand portfolio and an extensive distribution network.

These strengths allowed Bimbo to sustain stable operating performance despite the higher raw material costs and inflation. Moody's-adjusted EBITA margin in 2022 was 10.4%, slightly above the 10.2% in 2021. Through 2023, margins will remain under pressure because of the persistent cost and inflationary pressures, and weakening consumer demand in Bimbo's main markets. Nevertheless, Bimbo will be able to continue its successful pricing strategy, supported by an efficient product mix.

Today's rating upgrade also reflect Moody's view that Bimbo has entered into a mature phase in its business life cycle reducing event risk. In 2022, Bimbo sold its confectionery business Ricolino to Mondelez International, Inc. (Baa1 stable), as part of its strategy to focus on its core baked goods business and to grow and develop its salty snacks segment. Recent acquisitions by Bimbo include St. Pierre, a leading baking player in the premium brioche category in the U.S. and the U.K. and Vel Pitar bakery in Romania. These operations showcase Bimbo's strategic focus and did not prevent the company to reach an adjusted leverage of 2.0x. Given its leading position in main markets, we do not expect further M&A activity that will result in Bimbo deviating from current credit profile. For 2023, Moody's expects adjusted leverage to peak at 2.3x but to remain closer to 2.0x through 2025.

Recently, Bimbo has taken actions to strengthen its liquidity and financial flexibility showcasing its commitment to its investment grade rating. In April 2022, Bimbo exercised its option to redeem all its outstanding subordinated perpetual notes. The company has temporarily used its $1.93 billion Revolving Credit Facility (unrated) to redeem these bonds. Given our consideration of 50% equity of the perpetual notes, the refinance will effectively increase adjusted debt in some $250 million. However, Bimbo will be able to reduce funding costs through the transaction. Also in April, Bimbo announced the renewal of its existing sustainability-linked committed revolving credit facility ("RCF"), upsizing it from $1.75 billion to $1.93 billion. This renewal includes a maturity extension, providing ample flexibility and liquidity to the company.

Bimbo's credit fundamentals are stronger than the sovereign rating of its home market Mexico. In general, ratings for fundamental issuers are at or below the level of the sovereign rating where they are locally domiciled, considering that sovereigns typically have greater financial flexibility and market access than other domestic issuers. Bimbo's Baa1 global rating is one notch above Goverment of Mexico's Baa2 rating, reflecting the company's strong credit metrics, ample liquidity, and limited reliance on the local banking system for funding and cash generation outside Mexico, especially the hard currency revenue stream provided by the North America region. Currently, more than 50% of Bimbo's revenues come from the US and Canada with Mexico accounting some 30%. Also, most of Bimbo's installed capacity is in the US considering the 80 plants owned by the company in that market, that compare with 35 in Mexico and 37 in the rest of Latin America.

Environmental, Social and Governance Risk

Grupo Bimbo, S.A.B. de C.V. ("Bimbo") ESG Credit Impact Score is moderately negative (CIS-3). This reflects Moody's assessment that ESG attributes are overall considered to have a limited impact on the current rating with greater potential for future negative impact. Bimbo has a moderately negative exposure to environmental (E-3), social (S-3), and governance (G-3) risks.

Bimbo's E-3 Issuer Profile Score (IPS) reflects a moderately negative impact to its credit rating from its exposure to environmental risks. The company has neutral to low exposure to physical climate, carbon transition and water management risks that are not material in differentiating credit quality. However, natural capital and waste and pollution risks are moderately negative reflecting the waste created from products packaging material that often cannot be recycled. Bimbo is committed to the environment and has implemented a carbon and water footprint reduction, waste management and supply chain strategy. Bimbo expects to use 100% renewable electric power, +4,000 electric vehicles, 100% recyclable, biodegradable or compostable packaging, and 100% certified and sustainable sources of paper and board by 2025, and to reach zero net emissions by 2050.

Bimbo's exposure to social risks has a moderately negative impact on the credit rating (S-3). Similar to other companies in the packaged food industry, Bimbo has moderately negative exposure to customer relations, health and safety, responsible production and demographic and societal trends. The company is also exposed to evolving social and demographic trends, that may impact consumer demand and brand perception.

Bimbo's G-3 IPS reflects a moderately negative exposure to governance considerations. According to the bylaws of Bimbo, the board of directors must have a minimum of five and a maximum of 21 members, of which at least 25% must be independent members. In addition, Bimbo has to comply with the Mexican Stock Exchange regulations in terms of compliance and reporting.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The stable rating outlook reflects Moody's expectation that Bimbo will be able to maintain strong credit metrics over the next 12-18 months, in line with its rating category, as well as solid profitability. The outlook also considers the assumption of no major M&A, therefore we expect Bimbo will be able sustain positive free cash flow after 2023 and to fund its capex program with internal cash generation.

Moody's could upgrade the rating if Bimbo's credit metrics improve, such that its Moody's-adjusted debt/EBITDA remains below 2.0x and its retained cash flow/net debt remains above 27%. A rating upgrade would require Bimbo's stronger commitment to its investment grade credit rating, specifically with a public leverage target and dividend policy, while building track record of growing organically with no major M&A and moderate use of distributions to shareholders.

A rating downgrade could be triggered if Bimbo's operating performance weakens or if the company posts negative free cash flow (FCF) beyond 2023. Also, a deterioration in the company's credit metrics, such that its Moody's-adjusted retained cash flow/net debt declines below 20% and its Moody's-adjusted debt/EBITDA remains above 2.5x on a sustained basis, could trigger a downgrade. A deterioration in the company's liquidity, credit quality or profitability, could also lead to a rating downgrade.

The principal methodology used in these ratings was Consumer Packaged Goods published in June 2022 and available at https://ratings.moodys.com/api/rmc-documents/389866. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Based in Mexico City, Mexico, Grupo Bimbo, S.A.B. de C.V. ("Bimbo") is the world's largest baked-goods producer. Bimbo operates in 34 countries throughout the Americas, Europe, Asia and Africa. Its main product lines include packaged bread, sweet baked goods, buns, bagels, cookies, snack cakes, English muffins, tortillas, salted snacks and prepackaged foods, among others. In Mexico, the company is the largest producer of packaged bread and sweet baked goods, and the second-largest company in the salty snack categories.

The company also operates in the US (where it is the largest baked-goods company with strong regional brands) and Canada (where it holds a leading position in buns and rolls), and has a leading presence in Latin America, the UK, Spain and Portugal. The company also has presence in Switzerland, France, Italy, Morocco, India, Ukraine, Turkey, Russia, Romania, South Africa, Kazakhstan, China and Korea. Bimbo reported revenue of around $19.8 billion in 2022.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Sandra Beltran
Vice President - Senior Analyst
Corporate Finance Group
JOURNALISTS: 1 888 779 5833
Client Service: 1 212 553 1653

Marcos Schmidt
Associate Managing Director

Corporate Finance Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

---

to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.