

## Applied Investment Management (AIM) Program

### AIM Class of 2014 Equity Fund Reports Spring 2014

***Date:*** February 28<sup>th</sup> | ***Time:*** 12-1 p.m. | ***Location:*** *AIM Research Room (488)*

#### Join us in person

Student Presenter	Company Name	Ticker	Price	Page No.
Rocio Maria Diaz	Grupo Bimbo, S.A.B.de C.V.	GRBMF	2.56	2

The student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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## Grupo Bimbo, S.A.B de C.V. (GRBMF)

February 28, 2014

Rocio Maria Diaz

International Consumer Staples

*Grupo Bimbo S.A.B de C.V. (GRBMF) is one of the leading baking companies in the world. It carries out the production, distribution, and marketing of more than 10,000 products including packaged bread, salted snacks, confectionary, tortillas, and packaged foods. Bimbo sells its products under various brands such as Orowheat, Sara Lee, Mrs. Baird's, Thomas', and others. The company has presence in North America (45% of revenue), Mexico & Asia (39%), Latin America (13%), and Europe (3%). Grupo Bimbo, S.A.B. de C.V. was founded in 1945 and is headquartered in Mexico City, Mexico.*

Price (\$): (2/20/14)	2.56	Beta:	0.98	FY: Dec	2013A	2014 E	2015 E
Price Target (\$):	\$ 3.21	WACC:	11.27%	Revenue (\$mil)	14,138.28	15,688.64	17,186.39
52 WK H-L (\$):	2.52-3.75	M-Term Rev Gr. Rate Est:	8.53%	% Growth	7%	11%	10%
Market Cap (mil):	12,040	M-Term EPS Gr. Rate Est:	23.19%	Gross Margin	49.0%	49.0%	48.5%
Float (mil):	1,552	Debt/Equity:	90.38%	Operating Margin	6.5%	6.8%	7.2%
Short Interest (%):	0.28	ROA (ttm):	2.30%	EPS (Cal)	0.08	0.10	0.12
Ave Daily Vol (K):	10,084	ROE (ttm):	6.90%	FCF/Share	\$ 0.28	\$ 0.28	\$ 0.30
Dividend Yield (%):	0.51%			P/E (Cal)	30.4	25.6	20.6
				EV/EBITDA	10.9	9.6	8.4

### Recommendation

Over the last decade, Bimbo has evolved from a strong local player to the leading baking company in the Americas and the largest in the world in terms of volume and sales. Grupo Bimbo operates 150 plants in 19 countries across Asia, Europe, and the Americas. The company has 51,000 distribution routes and 2.2 million points of sale. Grupo Bimbo has one of the largest distribution networks in the Americas proving GRBMF with a competitive advantage. The company reaches a diverse customer base, contributing to increasing its market share (25% in Mexico, 16% in the U.S.). In addition to its strong distribution network, the company produces more than 10,000 products under 100 globally recognized brands. Thus, a broad product and brand portfolio helps the company not only reduce the impact of market volatility but also to cater to the diverse needs of consumers. Bimbo's ability to earn and maintain shelf space at convenience stores, supermarkets, and other retailers, play an important role in maintaining profitable results. In addition, the company enjoys leading market positions in the majority of the geographies it operates (e.g. #1 in packaged baked goods in Mexico, Central and South America, and Iberia - and #1 portfolio of Hispanic brands in the U.S., in the categories where it competes). Because of these reasons, it is recommended that Grupo Bimbo be added to the AIM International Portfolio at a target price of \$3.21, representing an upside potential of 25%. The company offers a dividend yield of 0.51%.

### Investment Thesis

- Strategic M&A's.** During the past 10 years, Grupo Bimbo has been able to successfully integrate more than 30 acquisitions. Grupo Bimbo looks for acquisitions that lead to geographical expansion and extension of product portfolio. Also, the company seeks companies that are accretive to growth and that have strong brand recognition in the markets in which they operate. Additionally, these strategic acquisitions help the company to remain relevant to its customers and compete efficiently with its peers. In 2011, Grupo Bimbo acquired Sara Lee Corporation, a market leader for packaged bakery goods in the U.S. By 2013, this acquisition provided \$200M in total synergies. Importantly, this acquisition gave Grupo Bimbo significant cross-selling opportunities given limited product and geographic overlap. Given that this is a highly fragmented industry, there are plenty of acquisition opportunities for Grupo Bimbo; thus it is expected that this strategy will continue to be a key contributor to top and bottom-line growth going forward.

- **Geographical Expansion.** The company has made a concerted effort to increase its presence in North America. In 2011, the region categorized as the U.S. only represented 39% of revenues, and today it represents 45% of revenues. In addition to that, the U.S. market has been able to experience 5-year CAGR revenue growth of 30.8%. Grupo Bimbo is not only interested in penetrating the U.S. market but also the Canadian market, as it sees a more stable revenue and cash flow stream coming from the North America region. In fact, the company just acquired one of the largest bakery companies in Canada, Canada Bread. This company enjoys 31% market share in that country and it also offers exposure to the UK market. Additionally, this acquisition is expected to be accretive to EPS from year one. Wider reach in terms of geography would mean reaping benefits, such as improving the profit margins as capacity utilization increases, attaining economies of scale, and gaining brand recognition on a worldwide basis. Finally, geographic diversity enables the company to reduce the risks of being over dependent on a specific region.
- **Margin Improvement.** Operating margins in the U.S. were impacted in 2012 due to the Sara Lee acquisition, as this business operated at below corporate average margins and needed Bimbo's management to lean out some of its operations and realize cost synergies. Over the next few years and beyond, Bimbo has the opportunity to take U.S. EBITDA margins from 6% to 11%, as it gains scale in the region and it focuses on making progress on its multiyear restructuring plan; as a proxy, its Mexican segment operates at a 20% EBITDA margin. Furthermore, Bimbo is focused on implementing a restructuring plan in Brazil which consists in an improvement in its operations and distribution infrastructure with the ultimate goal of turning the region to profitability. Altogether, in 2014 operating margins should experience an expansion of at least 30bps, and over the long run, operating margins are expected to reach 13%.

### Valuation

In order to find the intrinsic value of Grupo Bimbo, a five-year DCF model was conducted. Using a long term growth rate of 3% and a WACC of 11.27%, resulted in a valuation of \$3.11 per share. A sensitivity analysis was also conducted with variation in the long-term growth (2-4.5%) and WACC (9.5-12.5%), providing a price range between \$2.45 and \$5.07. Relative valuation methods using P/E, P/Sales, EV/EBITDA multiples were also conducted; using an average peer multiple P/E of 23x, P/S of 1.42x, and EV/EBITDA of 13.3x. Weighting these three valuations 55%, 15%, 15%, and 15% respectively, a price target of \$3.21 was established, which provides a potential upside of 25%. The company pays a dividend.

### Risks

- **Government Regulation.** By being a producer and marketer of food, the company is subject to various regulations including the FDA and different regulatory agencies. In Q4 2013, Bimbo increased prices in Mexico, partially due to offset the impact from the implementation of a regulation mandating 8% Value-Added tax on high-caloric content snacks. Management has already taken this and several other steps to address any potential impact of this regulation, but it is a situation that must be closely watched.
- **Competition.** The packaged food industry faces intense competition due to continued consolidation where smaller companies are acquired or merged with larger companies. Therefore, it becomes very important for Grupo Bimbo to distinguish its product offers by setting a clear and unique value proposition.

### Management

Daniel Servitje is the CEO of Grupo Bimbo and joined the group in 1978. He received his bachelor's degree in business administration from Universidad Iberoamericana in Mexico, and an MBA from Stanford University. He and his family own 61% of the shares outstanding. Guillermo Quiroz, Chief Financial Officer of the company, joined Grupo Bimbo in 1999. He has a degree in actuarial studies and an MBA from IPADE.



Ownership		
% of Shares Held by All Insider and 5% Owners:	71.93%	
% of Shares Held by Institutional & Mutual Fund Owners	20.10%	
		Source: Thomson One
Top 5 Shareholders		
Holder	Shares	Out%
Normaciel, S.A. de C.V.	1,756,513,140	37.35%
Promociones Monser, S.A. de C.V.	550,268,544	11.70%
Banamex	263,280,212	5.60%
Philae, S.A. de C.V.	174,960,000	3.72%
The Vanguard Group, Inc.	51,840,705	1.10%
		Source: Thomson One