



**VERTICALLY INTEGRATED  
TEXTILE COMPANY**

**EARNINGS RELEASE  
2Q19**

## MESSAGE FROM THE CEO

Dear Investor,

The first semester of 2019 has presented many challenges for Mexico and our company. Mexico's GDP for the second quarter of 2019 recorded a seasonality-adjusted growth of 0.1% compared to the first quarter of 2019, avoiding two consecutive quarters of negative growth. This had a negative impact on our domestic sales. On the other side, the trade war of the United States and China led to an increase of demand of Mexican textile products from the United States, which benefited our foreign revenues.

Sales for the second quarter of 2019 reached MXN4,376 million, compared to MXN4,711 million for the same period of 2018, this represented a decrease of 7%. The reduction was due to lower sales in our domestic market, which decreased by 9% as a result of the low economic growth in Mexico, while sales to the US for the quarter increased by 6%.

EBITDA for the second quarter of 2019 increased by 37% reaching MXN472 million compared to MXN344 million for the same period of 2018. This increase was achieved through a better management of costs and operating expenses, which mitigated the reduction in sales. For this quarter the EBITDA margin rose to 10.8% compared to 7.3% registered during the second quarter of 2018.

Net Loss for the quarter was MXN94 million compared to a loss of MXN689 million for the same period of last year, explained mainly by the FX income as a result of a stronger Mexican Peso, which appreciated 1.1% over the second quarter of 2019.

In respect of the US\$320 million, 8.875% bond issued on April 11, 2018, we executed the fourth interest payment on April 11, 2019 through funds from our operation.

Finally, I am certain that with our strengths we can face the challenges that may come in the future. Thank you for your trust.

*Rafael Kalach Mizrahi*  
Chairman of the Board & CEO

Naucalpan, Estado de Mexico, August 14, 2019 – Grupo Kaltex S.A. de C.V. and subsidiaries (Ticker: KLTXX), a leading company in the manufacture and marketing of textile products, announced today its results for the second quarter of 2019 ended June 30, 2019. The figures presented in this report are expressed in nominal Mexican pesos, are preliminary and non-audited, prepared in accordance with IFRS and current interpretations, and may vary due to rounding. The company has adopted IFRS 16 leases standard, but for analysis purposes its effects are excluded in the comments below.

## 2Q19 HIGHLIGHTS

- ✎ 2Q19 consolidated net revenue reached MXN4,376 million, a decrease of 7.1% when compared to the MXN4,711 million reported in 2Q18 due to lower revenues in the domestic market as a result of the low economic growth in Mexico, while sales to the US for the quarter increased by 6%.
- ✎ 2Q19 consolidated cost of goods sold was MXN\$3,364 million, a year-over-year decrease of 9.2% or MXN\$343 million, compared to 2Q18, mainly driven by a decrease in labor, retail stores and raw material costs.
- ✎ Gross profit increased by 0.7% on a quarterly basis reaching MXN1,012 million compared to MXN1,005 million for 2Q18, while the gross margin for the quarter increased to 23.1% from 21.3% in 2Q18.
- ✎ EBITDA generation for the 2Q19 increased by 37.0% reaching MXN472 million compared to MXN344 million in 2Q18 due to a decline in costs and operating expenses. Margin for the period stood at 10.8% versus 7.3% recorded in the same quarter of last year.
- ✎ 2Q19 consolidated net loss for the quarter reached MXN94 million compared to a loss of MXN689 million recorded in the 2Q18, explained by higher FX income as a result of the 1.1% appreciation of the Mexican Peso, during the 2Q19.

**KEY CONSOLIDATED FINANCIAL INDICATORS**

<i>Figures in MXN millions</i>	<i>Three months ended, June 30,</i>			<i>Six months ended, June 30,</i>		
	<b>2019</b>	<b>2018</b>	<b>Δ%</b>	<b>2019</b>	<b>2018</b>	<b>Δ%</b>
Net Revenue	4,376	4,711	-7.1%	8,359	8,743	-4.4%
Gross Profit	1,012	1,005	0.7%	1,917	1,840	4.2%
Gross Margin (%)	23%	18%	552bps	23%	21%	189bps
Operating Expenses	529	683	-23%	1,183	1,321	-10%
Operating Expenses / Sales	12%	15%	-241bps	14%	15%	-95bps
Operating Income	196	169	16%	244	245	0.0%
Operating Margin (%)	4.5%	3.6%	91bps	2.9%	2.8%	13bps
Consolidated Net Income	(94)	(689)	-86%	(81)	(347)	-77%
Net Margin (%)	-2.2%	-14.6%	1247bps	-1.0%	-4.0%	300bps
EBITDA	472	344	37%	681	596	14%
EBITDA margin (%)	10.8%	7.3%	347bps	8%	6.8%	133bps
CAPEX	(24)	(156)	-85%	(70)	(288)	-76%
ROA (LTM)	-1.1%	-4.6%	341bps	-1.1%	-4.6%	341bps
ROE (LTM)	-4.9%	-16%	1109bps	-4.9%	-16%	1109bps
Total Debt / EBITDA (LTM)	4.84	5.63	-	4.84	5.63	-
Net Debt / EBITDA (LTM)	4.65	5.38	-	4.65	5.38	-
Interest Coverage	1.56	1.28	-	1.52	1.16	-
Working Capital	3,970	4,291	-7.5%	3,970	4,291	-7.5%
Free Cash Flow	215	(405)	NA	(32)	(622)	-95%
Headcount (number)	16,839	18,459	-8.8%	16,839	18,459	-8.8%

**REPRESENTATIVE COSTS**

<i>Figures in MXN millions</i>	<i>Three months ended, June 30,</i>			<i>Six months ended, June 30</i>		
	<b>2019<sup>1</sup></b>	<b>2018<sup>2</sup></b>	<b>Δ%</b>	<b>2019<sup>1</sup></b>	<b>2018<sup>2</sup></b>	<b>Δ%</b>
Cotton (US\$ per pound) – Average	0.70	0.81	-13%	0.73	0.81	-9.5%
Energy (MXN\$ per MWh) – Average	1.83	1.67	9.7%	1.84	1.48	25%

<sup>1</sup> Exchange rate at June 30, 2019: 19.1685

<sup>2</sup> Exchange rate at June 30, 2018: 19.8633



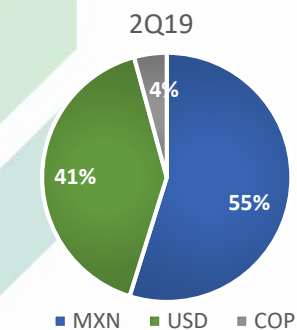
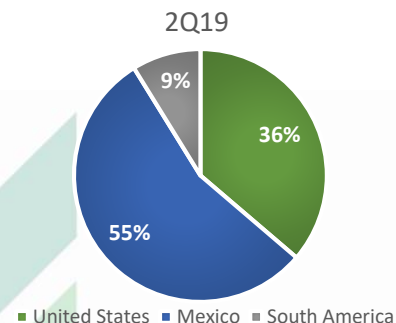
## INCOME STATEMENT

### Revenues

2Q19 consolidated net revenues totaled MXN4,376 million, a decrease of 7.1% or MXN336 million compared to the MXN4,711 million recorded in 2Q18, due to lower domestic sales which decreased 9.0% as a result of the low economic growth in Mexico. Sales to the US for the quarter increased 6.4% and represented 36% of total revenues, compared to 31.5% for the same period of 2018, as we continue to benefit from the trade war between the US and China and companies are diversifying their denim sourcing locations.

For the first six months of 2019, net revenues reached MXN8,359 million compared to MXN8,743 million for the same period of last year, representing a decrease of MXN384 million or 4.4%. Domestic revenues for that period decreased by 7.1% while US revenues increased by 8.2%, representing 37.9% of total revenues, compared to 33.5% in the same period of 2018.

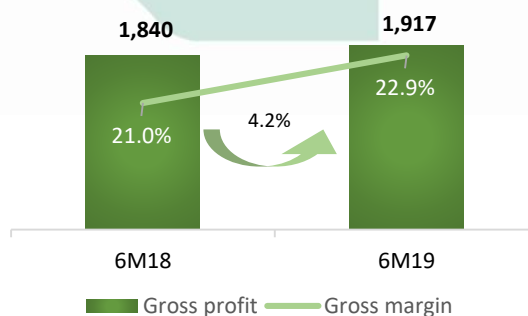
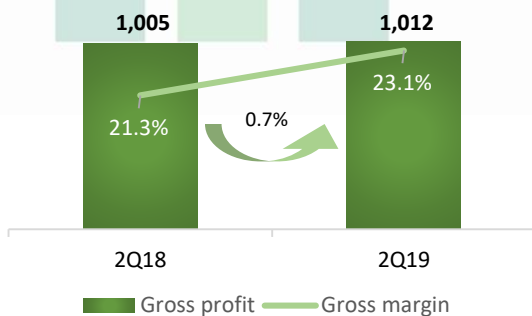
During 2Q19, the share of Dollar denominated revenue reached 40.8% versus 39.2% in 2Q18, while the share of Mexican Peso denominated revenue reached 54.6%, coming from 55.7% in 2Q18.



### Cost of goods sold

For the 2Q19 we recorded MXN3,364 million of cost of sales, which represents a decrease of MXN343 million or 9.2% compared to MXN3,707 million reached in 2Q18. The decrease was due to a general reduction in our costs, especially in labor force, retail stores and raw materials. For the first semester of 2019 costs reached MXN6,441 million compared to MXN6,902 million registered during the same period of 2018, representing a decrease of MXN461 million or 6.7%.

### Gross profit



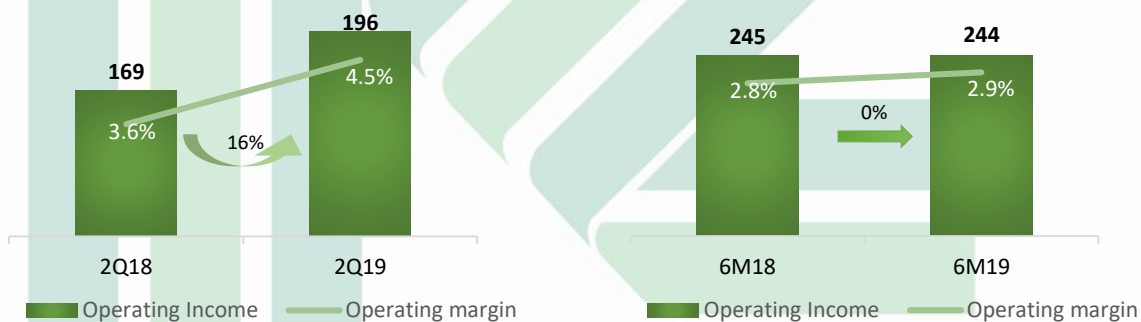
Gross profit for the 2Q19 amounted MXN1,012 million, an increase of MXN7 million or 0.7% versus MXN1,005 recorded in 2Q18, while gross margin for the 2Q19 increased by 179 bps reaching 23.1%, compared to 21.3% in 2Q18. For the first six months of 2019, gross profit was MXN1,917 million, an increase of 4.2% or MXN77 million compared to MXN1,840 million for the same period of last year, gross margin stood at 22.9% an increase of 189 bps compared to 21.0% for the first semester of 2018.

## Operating and Other Expenses

Concept	Three months ended, June 30,			Six months ended, June 30,		
	2019	2018	Δ%	2019	2018	Δ%
SG&A	529	683	-23%	1,183	1,321	-10%
Other income (expenses), net	(11)	23	NA	(53)	76	NA
<b>Total SG&amp;A and other expenses</b>	<b>540</b>	<b>661</b>	<b>-18%</b>	<b>1,237</b>	<b>1,245</b>	<b>-0.6%</b>
S&A and other expenses to sales	12%	14%	-168bps	15%	14%	56bps

Operating expenses for the 2Q19 reached MXN529 million, a decrease of 22.6% or MXN154 million compared to MXN683 million recorded in 2Q18 while the ratio of operational expenses to sales for 2Q19 was 12.1%, compared to 14.5% in 2Q18. Year-to-date, operating expenses amounted MXN1,183 million, representing a decrease of 10.4% or MXN137 million compared to the first semester of 2018.

## Operating Income

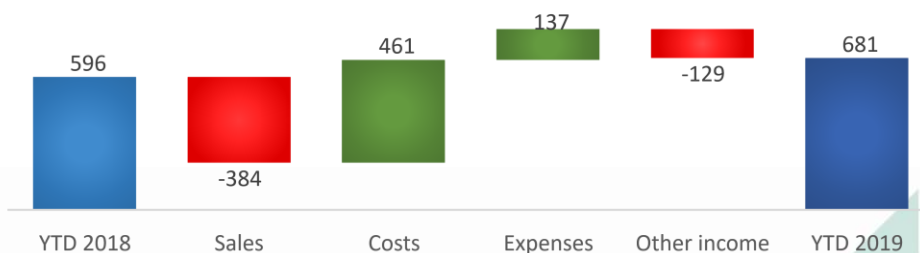


2Q19 consolidated operating income was MXN196 million, an increase of MXN28 million or 16.4% from MXN169 million reported on 2Q18, driven by a lower cost of sales and lower operating expenses. Operating margin increased to 4.5% for 2Q19 from 3.6% in 2Q18. For the first semester of 2019, operating income reached MXN244 million, in line with the MXN245 million recorded during the same period of 2018, but operating margin for the period increased to 6.9% from 5.7% in 2018.

## EBITDA

Consolidated EBITDA reached MXN472 million in 2Q19, an increase of MXN127 million or 37.0% compared to MXN344 million registered in 2Q18. EBITDA margin for the quarter stood at 10.8% representing an increase of 347 bps compared to 7.3% for the 2Q18. For the first six months of 2019, EBITDA amounted MXN681 million,

compared to MXN596 million for the same period of last year, representing an increase of MXN85 million or 14.2%.



### Net Interest Expense and Forex

*Figures in MXN millions*

Concept	Three months ended, June 30,			Six months ended, June 30,		
	2019	2018	Δ%	2019	2018	Δ%
Interest income	1.4	1.1	26%	4.3	2.4	79%
Interest expense	(303)	(268)	13%	(448)	(512)	-12%
Foreign exchange result	79	(565)	NA	191	(38)	NA
<b>Total Consolidated Financial Result</b>	<b>(222)</b>	<b>(832)</b>	<b>-73%</b>	<b>(253)</b>	<b>(548)</b>	<b>-54%</b>

2Q19 net interest expense was MXN301 million, an increase of MXN34 million or 12.9% versus MXN267 million in 2Q18. In a year-to-date basis, net interest expense decreased MXN65 million, or 12.8% reaching MXN444 million compared to MXN509 million in the same period of 2018. We recorded a Forex income of MXN79 million during the quarter, due to the 1.1% revaluation of the Mexican Peso during 2Q19, going from MXN19.38/US\$ at the end of March 2019 to MXN19.17 /US\$ at the end of June 2019.

### Income Tax

Income Tax expense was MXN68 million for the 2Q19, an increase of MXN43 million when compared to a MXN26 million income tax for the 2Q18. For the first semester of 2019, income tax reached MXN73 million pesos, compared to MXN44 million pesos for the same period of last year, representing an increase of MXN28 million pesos or 64.5%.

### Net Income

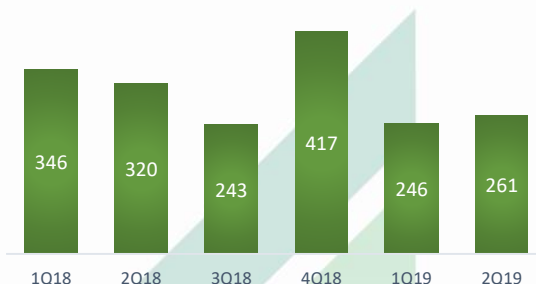


2Q19 consolidated net loss totaled MXN94 million, versus a net loss of MXN689 million recorded for 2Q18, representing an increase of MXN595 million, explained mainly by a lower Forex income due to a stronger Mexican Peso. For the first six months of 2019, net loss amounted MXN81 million, an increase of MXN266 million compared to a net loss of MXN347 million during the same period of 2018.

## BALANCE SHEET

### Cash and Cash Equivalents

The balance in cash and cash equivalents totaled MXN261 million as of June 30, 2019, that compares to MXN246 million at March 31, 2019.



### Debt

Grupo Kaltex gross debt amounted MXN6,797 million as of June 30, 2019, versus MXN7,327 million at the same date of last year due to the amortization of our bank debt. In dollar terms, gross debt was USD355 million, a decrease of MXN14 million or 3.9% compared to USD369 million as of June 30, 2018. In currency terms, 98.1% was denominated in US dollars, and the remaining 1.9% in Colombian pesos.

### Maturity Profile

*Figures in MXN millions*

	1 year	1-3 years	Total
<b>Total Debt</b>	<b>581</b>	<b>6,216</b>	<b>6,797</b>

### Debt Structure

Division	June 30, 2019	June 30, 2018	Δ%
<b>Short-term</b>	<b>30.3</b>	<b>39.8</b>	<b>-24%</b>
Amortizing	10.2	12.7	-20%
Revolving	20.2	27.1	-26%
<b>Long-term</b>	<b>324.2</b>	<b>329.0</b>	<b>-1.5%</b>
Amortizing	4.2	9.0	-53%
Senior Notes	320.0	320.0	0.0%
<b>Total</b>	<b>354.6</b>	<b>368.0</b>	<b>-3.9%</b>

Average rate	8.6%	8.5%	11 bps
Average life (years)	2.8	3.7	0.9

The average maturity of Grupo Kaltex's debt at the end of the 2Q19 was 2.8 years, a decrease from 3.7 years at the end of 2Q18.

Debt Ratio	2Q19	2Q18
Gross Debt / EBITDA	4.84x	5.63x



Gross Debt / EBITDA ratio decreased to 4.84x in 2Q19 from 5.63x in 2Q18, as a result a higher EBITDA during the 2019 and the normal amortization of debt.

Our gross FX exposure was USD644 million, of which financial exposure amounts USD348 million, and operative exposure amounts USD296 million. We have a natural hedge through our sales in US Dollars of USD379 million and a financial hedge of USD120 million, for a total net exposure USD146 million and a hedge ratio of 77%.

## Shareholders' Equity

Shareholders' Equity amounted MXN4,531 million as of June 30, 2019.

## CASH FLOW

*Figures in MXN millions*

Concept	Three months ended, June 30,			Six months ended, June 30,		
	2019	2018	Δ%	2019	2018	Δ%
EBITDA	472	344	37%	681	596	14%
Interest paid	299	411	-27%	362	470	-23%
Taxes paid	38	(22)	NA	59	38	56%
Working capital variation	(80)	361	NA	291	709	-59%
<b>Free Cash Flow</b>	<b>215</b>	<b>(405)</b>	<b>NA</b>	<b>(32)</b>	<b>(622)</b>	<b>-95%</b>

## CAPEX

For the 2Q19, investment in fixed assets reached MXN24 million or USD1.2 million, while for 2Q18 it amounted MXN156 million or USD8.0 million which represented a reduction of 84.7%. Year-to-date, Capex reached MXN70 million that compares to MXN288 million in the same period of last year, a reduction of 75.6%.

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## About Grupo Kaltex

Grupo Kaltex S.A. de C.V. is a 100% Mexican textile Company, vertically integrated with a business model that grants the highest standards of quality and service, certified by international organizations. For almost a century, Grupo Kaltex has been dedicated to the manufacturing and marketing of textile and apparel products, processes in which innovation and growth are the main differentiators that currently place it as a leader in America.

## Forward looking statements

*The information presented by the Company in this report may contain statements regarding future events and/or projected financial results. The results obtained in the future could differ from those projected in this document, since past results do not guarantee future performance. Therefore, the Company does not assume liability nor obligation for external or indirect factors occurring in Mexico or abroad.*

## Investor Relations

Name	e-mail	Telephone
Montserrat Valenzuela Marín	investors@kaltex.com.mx	+(52) 55 5726 5668

## 2Q19 Conference Call



### Conference Call

**DATE:** Thursday, August 15, 2019  
**TIME:** 12:00 P.M. (GMT -5, Mexico City)  
 1:00 P.M. (GMT -4, N.Y.)  
**PHONE:** +52 (55) 2881 4607  
 +1 (833) 393 9566

### Presenters

Jaime Morales Vazquez, CFO  
 Alfredo Mora Arana, Kaltex Fibers Director

MP3 Recording Available on Friday, August 16, 2019 at [www.irkaltex.com](http://www.irkaltex.com)

## CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements are presented considering the effects of the IFRS 16 leases standard.

### Grupo KALTEX S.A. de C.V. and Subsidiaries Consolidated Income Statement

<i>Figures in MXN thousands</i>	<i>Three months ended, June 30,</i>			<i>Six months ended, June 30,</i>		
	2019	2018	Δ%	2019	2018	Δ%
Net revenue	4,375,694	4,711,485	-7.1%	8,358,650	8,742,714	-4.4%
Cost of goods sold	3,628,260	3,882,207	-6.5%	6,858,558	7,253,668	-5.4%
<b>Gross profit</b>	<b>747,434</b>	<b>829,278</b>	-10%	<b>1,500,092</b>	<b>1,489,046</b>	0.7%
Sales expenses	196,378	426,783	-54%	572,665	819,193	-30%
Administrative expenses	219,899	256,535	-14%	416,395	501,423	-17%
Other (expenses) income net	(10,830)	22,801	NA	(53,303)	76,088	NA
<b>Operating profit</b>	<b>320,327</b>	<b>168,761</b>	90%	<b>457,729</b>	<b>244,518</b>	87%
Comprehensive financial result	(346,157)	(831,782)	-58%	(466,131)	(547,623)	-15%
Interest income	1,399	1,110	26%	4,268	2,378	79%
Interest expense	426,648	268,121	59%	661,728	511,753	29%
Foreign exchange result	79,092	(564,771)	NA	191,329	(38,248)	NA
Income tax	68,436	25,825	>100%	72,627	44,152	64%
<b>Consolidated net result</b>	<b>(94,266)</b>	<b>(688,846)</b>	-86%	<b>(81,029)</b>	<b>(347,257)</b>	-77%
Depreciation	275,088	175,445	57%	436,153	351,227	24%
<b>EBITDA</b>	<b>595,415</b>	<b>344,206</b>	73%	<b>893,882</b>	<b>595,745</b>	50%

### IFRS Effects

*Figures in MXN thousands*

	2Q 2019	6M 2019
Cost of goods sold	10,982	18,908
Sales expenses	106,268	182,966
Administrative expenses	6,634	11,422
<b>EBITDA</b>	<b>123,885</b>	<b>213,296</b>
Interest expense	(123,885)	(213,296)

**Grupo KALTEX S.A. de C.V. and Subsidiaries  
Consolidated Statement of Financial Position**

*Figures in MXN thousands*

	June 30, 2019	June 30, 2018
<b>Assets</b>		
Cash & cash equivalents	261,315	319,567
Accounts receivable, net	3,899,693	3,757,032
Accounts receivable to related parties	92,155	50,259
Inventories, net	3,788,800	3,796,213
Prepaid expenses	190,497	216,577
<b>Current assets</b>	<b>8,232,460</b>	<b>8,139,648</b>
Property, plant and equipment, net	10,750,286	11,471,468
Investment in properties	1,719,124	1,806,425
Deferred income tax	328,181	321,072
Other assets, net*	4,637,558	1,516,153
<b>Non-current assets</b>	<b>17,435,149</b>	<b>15,115,118</b>
<b>Total assets</b>	<b>25,667,609</b>	<b>23,254,766</b>
<b>Liabilities</b>		
Bank loans	581,629	791,282
Accounts payable to suppliers	3,718,321	3,262,327
Accounts payable to related parties	1,631,130	1,624,179
Other accounts payable and accrued liabilities*	4,724,287	1,560,247
Direct employee benefits	80,774	15,418
Advanced payments from customers	108,790	46,333
<b>Current liabilities</b>	<b>10,844,931</b>	<b>7,299,786</b>
Long-term financial liabilities	6,215,259	6,535,944
Accounts payable to related parties	1,927,592	919,078
Employee benefits	436,938	484,807
Contingencies	8,805	30,110
Deferred income tax	1,703,501	1,822,764
<b>Non-current liabilities</b>	<b>10,292,095</b>	<b>9,792,703</b>
<b>Total liabilities</b>	<b>21,137,026</b>	<b>17,092,489</b>
Capital stock	4,017,990	4,017,990
Accumulated (losses) earnings	(1,880,518)	(1,265,617)
Accumulated other comprehensive loss	130,566	236,207
<b>Controlling interest</b>	<b>2,268,038</b>	<b>2,988,580</b>
Non-controlling interest	2,262,545	3,173,697
<b>Total equity</b>	<b>4,530,583</b>	<b>6,162,277</b>
<b>Total liabilities and equity</b>	<b>25,667,609</b>	<b>23,254,766</b>

\*IFRS 16 Effect: \$3,252,133



**Grupo KALTEX S.A. de C.V. and Subsidiaries**  
**Consolidated Statement of Cash Flow**

<i>Figures in MXN thousands</i>	<i>Three months ended, June 30,</i>		<i>Six months ended, June 30,</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>				
Consolidated net income (loss)	(94,266)	(688,846)	(81,029)	(347,257)
<i>Adjustments for:</i>	-	-	-	-
Income tax expense recognized in net loss	68,436	25,825	72,627	44,152
Loss (gain) on disposal of property, plant and equipment	-	1,486	2,640	1,671
Depreciation and amortization	275,088	175,445	436,153	351,227
Contingencies	-	-	-	-
Fair value adjustment of investment properties	-	-	-	-
Interest income	(1,399)	(1,110)	(4,268)	(2,378)
Interest expense	408,880	276,238	645,349	511,753
Unrealized foreign exchange	(33,515)	309,879	(140,023)	(2,061)
	<b>623,224</b>	<b>98,917</b>	<b>931,449</b>	<b>557,107</b>
<b>Changes in working capital</b>				
<i>(Increase) decrease in:</i>				
Accounts receivable, net	(873)	(325,172)	(380,315)	(477,644)
Accounts receivables to related parties	-	-	-	-
Inventories, net	(5,705)	(222,937)	(72,521)	(295,919)
Prepaid expenses	(247,568)	(63,697)	(116,713)	(142,820)
Other assets*	(3,364,332)	(18,746)	(3,362,609)	(25)
<i>(Increase) decrease in:</i>				
Accounts payable to suppliers	82,605	535,805	77,813	398,873
Accounts payable to related parties	-	-	-	-
Other accounts payable and accrued liabilities*	3,052,695	266,592	3,108,609	365,041
Direct employee benefits	(27,397)	-	(37,961)	-
Advance payments from customers	(53,515)	10,144	(57,622)	(10,277)
Income taxes paid	(38,315)	22,221	(59,324)	(38,145)
Employee benefits	(1,022)	(3,586)	2,359	(13,528)
Contingencies	13,523	(3,824)	13,523	(3,426)
<b>Net cash flows generated by operating activities</b>	<b>33,320</b>	<b>295,717</b>	<b>46,688</b>	<b>339,237</b>
<i>Cash flows from investing activities:</i>				
Interest received	8,515	21	8,515	1,335
Acquisition of property, plant and equipment	(23,892)	(155,720)	(70,343)	(288,121)
Sale of property, plant and equipment	2,011	-	4,564	-
<b>Net cash flows (generated by) used in investing activities</b>	<b>(13,366)</b>	<b>(155,699)</b>	<b>(57,264)</b>	<b>(286,786)</b>
<i>Cash flows from financing activities:</i>				
Proceeds from debt	287,225	213,388	504,322	400,162
Payments of debt	(22,663)	(317,052)	(270,937)	(725,186)
Proceeds from related parties	30,871	348,145	(15,307)	630,749
Interest paid	(298,658)	(410,830)	(361,530)	(470,167)
Purchase of non-controlling interest	-	-	-	-
Capital increase	-	-	-	-
Dividends paid	-	-	-	-
Expenses associated with bond issue	-	-	-	-
<b>Net cash flow (used in) generated by financing activities</b>	<b>(3,225)</b>	<b>(166,349)</b>	<b>(143,452)</b>	<b>(164,442)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>16,729</b>	<b>(26,331)</b>	<b>(154,028)</b>	<b>(111,991)</b>
Effects of exchange rate changes on cash flows	(934)	(176)	(1,948)	(176)
<b>Cash and cash equivalents at beginning of year</b>	<b>245,520</b>	<b>346,074</b>	<b>417,291</b>	<b>431,734</b>
Cash and cash equivalents at end of year	261,315	319,567	261,315	319,567

\*IFRS 16 Effect