



**VERTICALLY INTEGRATED
TEXTILE COMPANY**

**EARNINGS RELEASE
3Q19**

MESSAGE FROM THE CEO

Dear Investor,

2019 has been a challenging year for the Mexican economy reflected in the year-over-year decrease of 0.4% in the GDP for the third quarter, and accumulating an increase of 0% year-to-date. This economic slowdown was seen as well in the low increase in sales and EBITDA (adjusted for IFRS accounting) of the companies listed in the Mexican Stock Exchange.

In contrast, jeans exports to the US have been increasing for Mexico, which reached a 22% market share for the first nine months of 2019, representing an increase of 6.7% compared to the same period of 2018, and Nicaragua which reached a market share of 3%, due to the trade war with China and the strong economic results coming from the US.

The combination of the two effects resulted in a decrease in our sales of 0.7% or MXN32 million, but better results in EBITDA were achieved through lower costs and operating expenses and better productivity, which resulted in an increase of 5% reaching MXN288 million compared to MXN274 million generated during the third quarter of 2018. This increase was 1.8 times higher than the average of the companies listed in the Mexican Stock Exchange. For this quarter the EBITDA margin reached 6.2% compared to 5.9% registered during the third quarter of 2018.

Net loss for the quarter was MXN470 million compared to a net income of MXN225 million for the same period of last year, explained mainly by the FX loss as a result of the average depreciation of the Mexican Peso, of 1.5% during the third quarter of 2019.

In respect of the US\$320 million, 8.875% bond issued on April 11, 2018, we executed the fifth interest payment on October 11, 2019.

To conclude, I would like to thank you for your trust in Kaltex and reiterate our commitment with the delivery of the results expected from our company.

Rafael Kalach Mizrahi
Chairman of the Board & CEO

Naucalpan, Estado de Mexico, November 13, 2019 – Grupo Kaltex S.A. de C.V. and subsidiaries (Ticker: KLTXMX), a leading company in the manufacture and marketing of textile products, announced today its results for the third quarter of 2019 ended September 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.

3Q19 HIGHLIGHTS

- ✦ 3Q19 consolidated net revenue reached MXN4,622 million, a decrease of 0.7% when compared to the MXN4,653 million reported in 3Q18 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 9%.
- ✦ 3Q19 consolidated cost of goods sold was MXN\$3,653 million, a year-over-year decrease of 1.2% or MXN\$44 million, compared to 3Q18, mainly driven by a decrease in labor and retail stores, that was partially offset by an increase in chemicals cost.
- ✦ Gross profit increased by 1.3% on a quarterly basis reaching MXN968 million compared to MXN956 million for 3Q18, while the gross margin for the quarter increased to 21.0% from 20.6% in 3Q18.
- ✦ EBITDA generation for the 3Q19 increased by 4.8% reaching MXN288 million compared to MXN274 million in 3Q18 due to a decline in operating expenses and a better productivity. Margin for the period stood at 6.2% versus 5.9% recorded in the same quarter of last year.
- ✦ 3Q19 consolidated net loss for the quarter reached MXN470 million compared to a net income of MXN225 million recorded in the 3Q18, explained by a higher FX loss as a result of the 1.5% average depreciation of the Mexican Peso, during 3Q19.

KEY CONSOLIDATED FINANCIAL INDICATORS

<i>Figures in MXN millions</i>	<i>Three months ended, September 30,</i>			<i>Nine months ended, September 30,</i>		
	2019	2018	Δ%	2019	2018	Δ%
Net Revenue	4,622	4,653	-0.7%	12,980	13,396	-3.1%
Gross Profit	968	956	1.3%	2,886	2,797	3.2%
Gross Margin (%)	21%	21%	41bps	22%	21%	136bps
Operating Expenses	637	679	-6.2%	1,820	1,999	-9.0%
Operating Expenses / Sales	14%	15%	-81bps	14%	15%	-90bps
Operating Income	73	112	-34%	318	356	-11%
Operating Margin (%)	1.6%	2.4%	-82bps	2.4%	2.7%	-21bps
Consolidated Net Income	(470)	225	NA	(551)	(122)	>100%
Net Margin (%)	-10.2%	4.8%	NA	-4.2%	-0.9%	-333bps
EBITDA	288	274	4.8%	968	870	11%
EBITDA margin (%)	6.2%	5.9%	33bps	7.5%	6.5%	96bps
CAPEX	(61)	(139)	-56%	(132)	(427)	-69%
ROA (LTM)	-4.0%	-1.9%	-207bps	-4.0%	-1.9%	-207bps
ROE (LTM)	-19%	-6.9%	-1252bps	-19%	-6.9%	-1252bps
Total Debt / EBITDA (LTM)	4.90	5.07	-	4.90	5.07	-
Net Debt / EBITDA (LTM)	4.75	4.89	-	4.75	4.89	-
Interest Coverage	0.93	1.08	-	0.93	1.08	-
Working Capital	2,713	2,390	14%	2,713	2,390	14%
Free Cash Flow	(64)	482	N/A	(80)	289	N/A
Headcount (number)	16,942	18,319	-7.5%	16,942	18,319	-7.5%

REPRESENTATIVE COSTS

<i>Figures in MXN millions</i>	<i>Three months ended, September 30,</i>			<i>Nine months ended, September 30</i>		
	2019¹	2018²	Δ%	2019¹	2018²	Δ%
Cotton (US\$ per pound) – Average	0.61	0.87	-30%	0.69	0.83	-17%
Energy (MXN\$ per MWh) – Average	1.81	2.03	-11%	1.83	1.68	9.2%

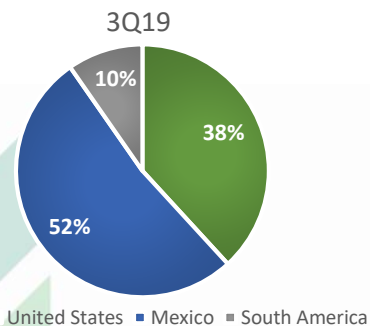
¹ Exchange rate at September 30, 2019: 19.6463

² Exchange rate at September 30, 2018: 19.8120

INCOME STATEMENT

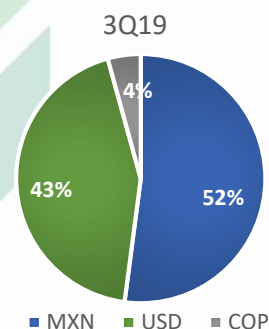
Revenues

3Q19 consolidated net revenues totaled MXN4,622 million, a decrease of 0.7% or MXN32 million compared to MXN4,653 million recorded in 3Q18, due to lower domestic sales which decreased 4.4% as a result of the low economic growth in Mexico. Sales to the US for the quarter increased 8.5% and represented 38.0% of total revenues, compared to 34.8% for the same period of 2018, as we continue to benefit from the trade war between the US and China that has resulted in higher jeans exports from Mexico, which reached a 22% market share in the first nine months of 2019 representing an increase of 6.7% compared to the same period of 2018 and Nicaragua, which reached a market share of 3% as well as the strong economic results coming from the US.



Year-to-date, net revenues reached MXN12,980 million compared to MXN13,396 million for the same period of last year, representing a decrease of MXN416 million or 3.1%. Domestic revenues for that period decreased by 5.8% while US revenues increased by 8.3%, representing 37.9% of total revenues, compared to 33.9% in the same period of 2018.

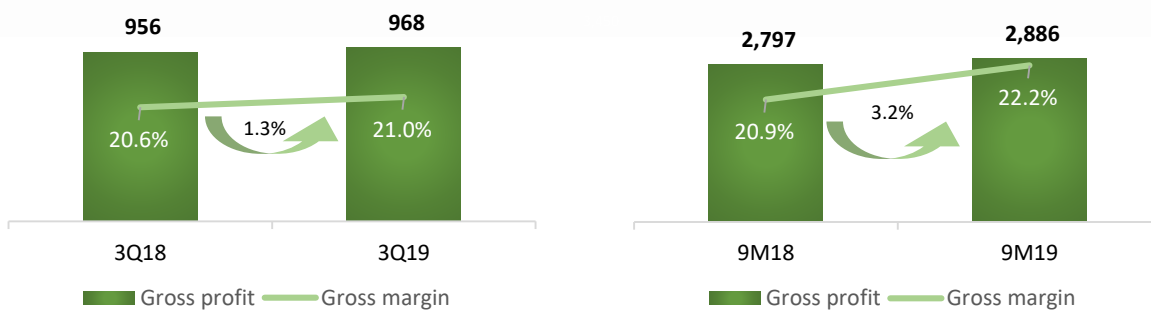
During 3Q19, the share of Dollar denominated revenue reached 43.5% versus 41.5% in 3Q18, while the share of Mexican Peso denominated revenue reached 51.9%, coming from 53.9% in 3Q18.



Cost of goods sold

For the 3Q19 we recorded MXN3,653 million of cost of sales, which represents a decrease of MXN44 million or 1.2% compared to MXN3,697 million reached in 3Q18. The decrease was due to a reduction of 20.8% in labor and 8.3% in general expenses in our retail stores cost, while we experienced an increase in chemicals cost. For the first nine months of 2019 costs reached MXN10,094 million compared to MXN10,600 million registered during the same period of 2018, representing a decrease of MXN505 million or 4.8%.

Gross profit



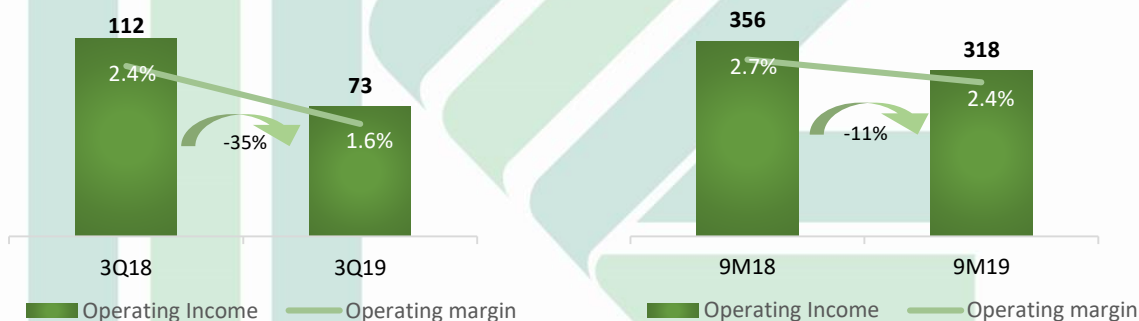
Gross profit for the 3Q19 amounted MXN968 million, an increase of MXN12 million or 1.3% versus MXN956 recorded in 3Q18, while gross margin for the 3Q19 increased by 41 bps reaching 21.0%, compared to 20.6% in 3Q18. Year-to-date, gross profit was MXN2,886 million, an increase of 3.2% or MXN89 million compared to MXN2,797 million for the same period of last year, while gross margin stood at 22.2% an increase of 136 bps compared to 20.9% for the same period of 2018.

Operating and Other Expenses

Concept	Three months ended, September 30,			Nine months ended, September 30,		
	2019	2018	Δ%	2019	2018	Δ%
SG&A	637	679	-6.2%	1,820	1,999	-9.0%
Other income (expenses), net	(44)	(3)	>100%	(98)	73	N/A
Total SG&A and other expenses	681	682	-0.1%	1,918	1,926	-0.5%
S&A and other expenses to sales	15%	15%	8bps	15%	14%	39bps

Operating expenses for the 3Q19 reached MXN637 million, a decrease of 6.2% or MXN42 million compared to MXN679 million recorded in 3Q18, while the ratio of operational expenses to sales for 3Q19 was 13.8%, compared to 14.6% in 3Q18. Year-to-date, operating expenses amounted MXN1,820 million, representing a decrease of 9.0% or MXN179 million compared to the first nine months of 2018.

Operating Income



3Q19 consolidated operating income was MXN73 million, a decrease of MXN39 million or 34.5% from MXN112 million reported on 3Q18, due to higher other expenses. Operating margin decreased to 1.6% for 3Q19 from 2.4% in 2Q18. For the first nine months of 2019, operating income reached MXN318 million, compared to MXN356 million recorded during the same period of 2018, and operating margin for the period decreased to 2.4% from 2.7% in 2018.

EBITDA

Consolidated EBITDA reached MXN288 million in 3Q19, an increase of MXN13 million or 4.8% compared to MXN274 million registered in 3Q18. EBITDA margin for the quarter stood at 6.2% representing an increase of 33 bps compared 5.9% for the 3Q18. For the first nine months of 2019, EBITDA amounted MXN968 million, compared to MXN870 million for the same period of last year, representing an increase of MXN98 million or 11.3%.



Net Interest Expense and Forex

Concept	Three months ended, September 30,			Nine months ended, September 30,		
	2019	2018	Δ%	2019	2018	Δ%
Interest income	1.1	0.8	38%	5.3	3.2	69%
Interest expense	(311)	(253)	23%	(759)	(765)	-0.8%
Foreign exchange result	(220)	385	N/A	(29)	347	NA
Total Consolidated Financial Result	(530)	132	N/A	(783)	(415)	88%

3Q19 net interest expense was MXN310 million, an increase of MXN57 million or 22.6% versus MXN253 million in 3Q18. In a year-to-date basis, net interest expense decreased MXN8 million, or 1.1% reaching MXN754 million compared to MXN762 million in the same period of 2018. We recorded a Forex loss of MXN220 million during the quarter, due to the 1.5% average devaluation of the Mexican Peso during 3Q19, going from an average of MXN19.12/US\$ during the 2Q19 to MXN19.42/US\$ during the 3Q19.

Income Tax

Income Tax expense was MXN14 million for the 3Q19, a decrease of MXN6 million when compared to a MXN19 million for the 3Q18. For the first nine months of 2019, income tax reached MXN86 million, compared to MXN64 million for the same period of last year, representing an increase of MXN23 million or 35.9%.

Net Income



3Q19 consolidated net loss totaled MXN470 million, versus a net income of MXN225 million recorded for 3Q18, representing a decrease of MXN695 million, explained mainly by the Forex loss due to a weaker Mexican Peso during the quarter. For the first nine months of 2019, net loss amounted MXN551 million, a higher loss of MXN429 million compared to a net loss of MXN122 million during the same period of 2018.

BALANCE SHEET

Cash and Cash Equivalents

The balance in cash and cash equivalents totaled MXN215 million as of September 30, 2019, that compares to MXN261 million at June 30, 2019.



Debt

Grupo Kaltex gross debt amounted MXN6,944 million as of September 30, 2019, versus MXN6,918 million at the same date of last year, due to the amortization of our bank debt. In dollar terms, gross debt was USD354 million, a decrease of MXN14 million or 3.8% compared to USD368 million as of September 30, 2018. In currency terms, 98.3% was denominated in US dollars, and the remaining 1.7% in Colombian pesos.

Maturity Profile

Figures in MXN millions

	1 year	1-3 years	Total
Total Debt	592	6,352	6,944

Debt Structure

Division	September 30, 2019	September 30, 2018	Δ%
Short-term	30.2	40.1	-25%
Amortizing	9.3	12.5	-26%
Revolving	20.9	27.7	-24%
Long-term	323.5	327.6	-1.3%
Amortizing	3.5	7.6	-55%
Senior Notes	320.0	320.0	0.0%
Total	353.6	367.7	-3.8%
Average rate	8.4%	8.5%	9 bps
Average life (years)	2.4	3.4	1.0

The average maturity of Grupo Kaltex's debt at the end of the 3Q19 was 2.4 years, a decrease from 3.4 years at the end of 3Q18.

Debt Ratio	3Q19	3Q18
Gross Debt / EBITDA	4.90x	5.07x

Gross Debt / EBITDA ratio decreased to 4.90x in 3Q19 from 5.07x in 3Q18, as a result a higher EBITDA during the 2019 and the normal amortization of debt.

Our gross FX exposure was USD637 million, of which financial exposure amounts USD359 million, and operative exposure amounts USD278 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 USD139 million and a hedge ratio of 78%.

Shareholders' Equity

Shareholders' Equity amounted MXN3,945 million as of September 30, 2019.

CASH FLOW

<i>Figures in MXN millions</i>	<i>Three months ended, September 30,</i>			<i>Nine months ended, September 30,</i>		
	2019	2018	Δ%	2019	2018	Δ%
Concept						
EBITDA	288	274	4.8%	968	870	11%
Interest paid	46	100	-53%	408	570	-28%
Taxes paid	23	20	17%	83	58	42%
Working capital variation	282	(327)	N/A	558	(47)	N/A
Free Cash Flow	(64)	482	N/A	(80)	289	N/A

CAPEX

For the 3Q19, investment in fixed assets reached MXN61 million or USD3.2 million, while for 3Q18 it amounted MXN139 million or USD7.4 million which represented a reduction of 55.7%. Year-to-date, Capex reached MXN132 million that compares to MXN427 million in the same period of last year, a reduction of 69.1%.

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

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3Q19 Conference Call



Conference Call

DATE: Thursday, November 14, 2019
TIME: 12:00 P.M. (GMT -6, Mexico City)
 1:00 P.M. (GMT -5, 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, November 15, 2019 at 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, September 30,</i>			<i>Nine months ended, September 30,</i>		
	2019	2018	Δ%	2019	2018	Δ%
Net revenue	4,621,593	4,653,333	-0.7%	12,980,243	13,396,047	-3.1%
Cost of goods sold	3,857,764	3,859,621	0.0%	10,716,322	11,113,289	-3.6%
Gross profit	763,829	793,712	-3.8%	2,263,921	2,282,758	-0.8%
Sales expenses	312,744	425,366	-26%	885,409	1,244,559	-29%
Administrative expenses	223,557	253,491	-12%	639,952	754,914	-15%
Other (expenses) income net	(44,335)	(3,047)	>100%	(97,638)	73,041	NA
Operating profit	183,193	111,808	64%	640,922	356,326	80%
Comprehensive financial result	(546,730)	132,361	>100%	(1,012,861)	(415,262)	>100%
Interest income	1,070	777	38%	5,338	3,155	69%
Interest expense	327,658	253,288	29%	989,386	765,041	29%
Foreign exchange result	(220,142)	384,872	NA	(28,813)	346,624	NA
Income tax	13,769	19,411	-29%	86,396	63,563	36%
Consolidated net result	(377,306)	224,758	NA	(458,335)	(122,499)	>100%
Depreciation	214,250	162,558	32%	650,403	513,785	27%
EBITDA	397,443	274,366	45%	1,291,325	870,111	48%

IFRS Effects

Figures in MXN thousands

	3Q 2019	9M 2019
Cost of goods sold	9,596	28,504
Sales expenses	111,695	294,661
Administrative expenses	(11,376)	46
EBITDA	(109,915)	(323,211)
Interest expense	(17,022)	(230,318)

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

Figures in MXN thousands

	September 30, 2019	September 30, 2018
Assets		
Cash & cash equivalents	215,035	242,981
Accounts receivable, net	4,029,912	3,342,074
Accounts receivable to related parties	81,190	60,142
Inventories, net	4,008,244	4,160,675
Prepaid expenses	255,480	285,018
Current assets	8,589,861	8,090,890
Property, plant and equipment, net	10,388,046	11,140,446
Investment in properties	1,629,851	1,688,590
Deferred income tax	775,267	326,917
Other assets, net*	4,585,415	2,040,395
Non-current assets	17,378,579	15,196,348
Total assets	25,968,440	23,287,238
Liabilities		
Bank loans	592,520	754,412
Accounts payable to suppliers	3,769,946	3,558,970
Accounts payable to related parties	1,636,692	1,614,199
Other accounts payable and accrued liabilities	4,964,787	1,810,916
Direct employee benefits	76,998	21,093
Advanced payments from customers	105,916	48,217
Current liabilities	11,146,859	7,807,807
Long-term financial liabilities	6,351,786	6,163,397
Accounts payable to related parties	1,993,603	885,394
Employee benefits	420,122	476,792
Contingencies	9,704	29,679
Deferred income tax	2,101,173	1,788,986
Non-current liabilities	10,876,388	9,344,248
Total liabilities	22,023,247	17,152,055
Capital stock	4,017,990	4,017,990
Accumulated (losses) earnings	(2,391,238)	(1,200,653)
Accumulated other comprehensive loss	130,566	236,207
Controlling interest	1,757,318	3,053,544
Non-controlling interest	2,187,875	3,081,639
Total equity	3,945,193	6,135,183
Total liabilities and equity	25,968,440	23,287,238

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

<i>Figures in MXN thousands</i>	<i>Three months ended,</i> <i>September 30,</i>		<i>Nine months ended,</i> <i>September 30,</i>	
	2019	2018	2019	2018
Cash flows from operating activities				
Consolidated net income (loss)	(377,306)	224,758	(458,335)	(122,499)
<i>Adjustments for:</i>				
Income tax expense recognized in net loss	13,769	19,411	86,396	63,563
Loss (gain) on disposal of property, plant and equipment	-	1,207	2,640	2,878
Depreciation and amortization	214,250	162,558	650,403	513,785
Contingencies	-	-	-	-
Fair value adjustment of investment properties	-	-	-	-
Interest income	(1,070)	(777)	(5,338)	(3,155)
Interest expense	327,721	253,288	973,070	765,041
Unrealized foreign exchange	50,345	(325,622)	(89,678)	(327,683)
	227,709	334,823	1,159,158	891,930
Changes in working capital				
<i>(Increase) decrease in:</i>				
Accounts receivable, net	(172,999)	(288,144)	(553,314)	(765,788)
Accounts receivables to related parties	-	-	-	-
Inventories, net	(153,751)	(477,402)	(226,272)	(773,321)
Prepaid expenses	(72,330)	(62,181)	(189,043)	(205,001)
Other assets*	2,348	11,397	(3,360,261)	11,372
<i>(Increase) decrease in:</i>				
Accounts payable to suppliers	176,964	349,040	254,777	747,913
Accounts payable to related parties	-	-	-	-
Other accounts payable and accrued liabilities	96,105	347,532	3,204,714	712,573
Direct employee benefits	-	-	(37,961)	-
Advance payments from customers	-	(17,488)	(57,622)	(27,765)
Income taxes paid	(23,196)	(19,883)	(82,520)	(58,028)
Employee benefits	267	9,049	2,626	(4,479)
Contingencies	(16,538)	(5,966)	(3,015)	(9,392)
Net cash flows generated by operating activities	64,579	180,777	111,267	520,014
<i>Cash flows from investing activities:</i>				
Interest received	-	27	8,515	1,362
Acquisition of property, plant and equipment	(61,391)	(138,660)	(131,734)	(426,781)
Sale of property, plant and equipment	14,984	-	19,548	-
Net cash flows (generated by) used in investing activities	(46,407)	(138,633)	(103,671)	(425,419)
<i>Cash flows from financing activities:</i>				
Proceeds from debt	38,431	263,446	542,753	663,608
Payments of debt	(56,871)	(305,136)	(327,808)	(1,030,322)
Proceeds from related parties	-	22,772	(15,307)	653,521
Interest paid	(46,442)	(99,810)	(407,972)	(569,977)
Purchase of non-controlling interest	-	-	-	-
Capital increase	-	-	-	-
Dividends paid	-	-	-	-
Expenses associated with bond issue	-	-	-	-
Net cash flow (used in) generated by financing activities	(64,882)	(118,728)	(208,334)	(283,170)
Net increase (decrease) in cash and cash equivalents	(46,710)	(76,584)	(200,738)	(188,575)
Effects of exchange rate changes on cash flows	430	-	(1,518)	(176)
Cash and cash equivalents at beginning of year	261,315	319,567	417,291	431,734
Cash and cash equivalents at end of year	215,035	242,983	215,035	242,983