Credit Rating Agency

*A NRSRO Rating**

Grupo Lamosa

Grupo Lamosa, S.A.B. de C.V.

Private Placement: CUSIP P4952@ AA9

HR BBB+ (G)

Corporates
November 29, 2022

Ratings

Grupo Lamosa Global	HR BBB+ (G)
Private Placement	HR BBB+ (G)
Outlook	Stable

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Rule 17g-7 Information Disclosure Form

The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.

1. **Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

Entity/Instrument	Rating Action	Rating Type	Rating Code
Grupo Lamosa Global	Upgrade	Long Term Rating	HR BBB+ (G) / Stable Outlook
Private Placement	Upgrade	Long Term Rating	HR BBB+ (G) / Stable Outlook

2. **Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

The rating assigned by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Evaluation, August 2021
  https://www.hrratings.com/docs/metodologia/Corporate_Debt_Credit_Risk_Evaluation_(August_2021).pdf.
- General Methodological Criteria, January 2022
  https://www.hrratings.com/docs/metodologia/General_Methodological_Criteria_January_2022.pdf

3. **Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

This methodology describes the process that HR Ratings uses to evaluate the ability and willingness of corporate entities to pay their debt obligations. This process consists of two elements: the first element refers to a quantitative analysis, which initially determines the credit rating through the historical analysis of the entity and the projection of a Base Scenario and a Stress Scenario, weighting the main metrics of indebtedness identified by HR Ratings; the second element includes a qualitative analysis based on environmental, social, and corporate governance (ESG) factors. The quantitative element of this methodology consists of three sections that describe different rating processes that in general terms are similar, but that include different concepts and weights associated with these concepts. The first process refers to a quantitative evaluation of the corporate entities, the second to the assets that focus on real estate investments and, lastly, a third process that shows how to rate structured debt issues that have pledge a specific source of revenue to service the debt and that said revenue is dependent on the issuer's operations. All these processes have the following similarities:

- They are developed based on historical information, a Base Scenario, and a Stress Scenario in which the corporate entity's financial information is projected.
- Financial metrics are developed under each scenario for the historical and projected years.
- Each metric, under each scenario, is weighted over the years to generate a unique intertemporal value.
- An integer value between 1 (lowest) and 19 (highest) is assigned to each metric based on its intertemporal value.
- These integer values are averaged based on the different metrics in each process and a result is obtained for the Base Scenario and another for the Stress Scenario.
- Based on the averages per scenario, the result of the quantitative evaluation is obtained.
- In turn, the qualitative analysis of HR Ratings allows to subtract or add up to three notches to the credit rating based on ESG factors. This evaluation focuses on identifying the credit risk that these factors could give rise to; therefore, it is important to clarify that, to a certain extent, their impact could already be included in the quantitative analysis. The ESG evaluation also recognizes that each factor being analyzed involves different risks depending on the economic activity and line of business of the corporate entity, an issue that the methodology considers in its analysis.

To include the ESG risk, HR Ratings uses a system to assign one of the three different labels: Superior, Average or Limited. A Superior label indicates that the corporate entity, compared to other participants in its industry, shows limited exposure to a common risk, or that its mechanisms for mitigating the risk are above the market standard. The Average label refers to moderate exposure or the existence of mechanisms that could partially mitigate the risk identified for a specific industry. In general, this label suggests that long-term risks have been identified or that there could be moderate impacts on the credit quality in the short term and that the corporate entity being rated is not able to fully mitigate the risks. Lastly, the Limited label means that the corporate entity, compared to other participants in its industry, is exposed to a larger extent to risks or lacks adequate mitigation mechanisms; therefore, the corporate entity's risks could have an impact in the short term.

4. Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- HR Ratings does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer´s securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer´s securities or stock, or the possibility that this value suffer a deterioration

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating. The Company did not have non proforma quarterly financial statements comparable with audited financial statements. The rating incorporates a negative adjustment for this limited financial information.

6. Use of third party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

HR Ratings did not consider third-party due diligence information for the rating.

7. Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

HR Ratings did not use Servicer or Remittance Reports.

8. Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

Among the main information used for the rating is:

- Quarterly Financial Statements for 2018 to third quarter 2022 (3Q22) reported to Bolsa Mexicana de Valores (BMV) by the entity.
- Earnings release for 2018 to third quarter 2022 (3Q22) reported by the entity
- Annual Audited information for 2018 to 2021 provided by the entity.
- Projections, budget, and guidelines provided by the entity.
- Operational information (volumes and price) provided by the entity.
- Debt’s amortization calendar reported by the entity

9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

The quality of the information provided by the entity is considered to be consistent with the quality observed in ratings that use a similar methodology.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee. The Analysis has been performed with complete independence from the received fees or any other business relation with the entity and in absolute concordance with the applicable methodologies. The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment, or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7

1. Factors that are reasonably likely to lead to a change in the credit rating:

   - **Decrease in EBITDA:** If the Company present a decrease in the EBITDA margin with an average below 10.0% during the forecasted period, this could result in a negative minimum impact on the rating
   - **Decrease in Cash Flow.** Bigger working capital requirements mainly through the increase in accounts receivable and inventories caused by a slowed down operation, resulting in a 60.0% decrease in the free cash flow generation, could result in a negative minimum impact on the rating.
   - **Increase in debt.** If Grupo Lamosa increases its debt by 80.0% in the forecasted period, in order to fund its working capital requirements, and this is not offset by a higher free cash flow generation, this could increase the Years of Payment metrics, and therefore could result in a negative minimum impact on the rating.

2. The magnitude of the change that could occur under different market conditions determined by HR Ratings to be relevant to the rating:

   - **Sovereign debt.** Any change, positive or negative, to the sovereign rating for Mexico, and its outlook, would be reflected directly in the global rating for Grupo Lamosa. If the sovereign debt decreases one notch this could result in a negative minimum impact
   - **Debt service pressures.** Since the main driver for the debt service in the short term is the interest payments, any modifications on the US Dollar interest rate may result on a direct impact on the DSCR and DSCR with cash metrics, this could result in a negative minimum impact on the rating.

   NOTE: The Credit Analysis Committee must convene to review and discuss the changes that could occur under different market conditions. All the ratings issued by HR Ratings must be approved by the Credit Analysis Committee in accordance with the applicable methodology and the information available at the time. However, the magnitude of a potential change in the rating that could reasonably occur as a result of the impact of the factors listed above are characterized by the following summary chart:

Rating change impact	Number of notches
Minimum	(0-1)
Moderate	(2 - 3)
Strong	>3

12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations. As our ratings measure relative creditworthiness, they do not necessarily reflect any specific statistical probability of default. However, HR Ratings provides to the market participants the default rate for historical default and loss statistics for the class or subclass of the credit rating. Although the default rate is not the expected probability of default or loss given default, we consider it the ratio that could be interpreted by market participants as such. The default rate for each of the asset classes in which HR Ratings provides ratings and for each rating category is publicly available for each calendar year at: https://www.hrratings.com/regulatory_disclosure/transition_matrix.xhtml

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13. <u>Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7</u>

1. Assumptions made in the ratings process that, without accounting for any other factor, would have the greatest impact on the credit rating if proven false or inaccurate:

   - HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. The assumption is that the information provided is reliable and credible, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.

   - **Revenue**. Our estimates consider a 2021-2025 CAGR of 11.5% mainly driven by the recovery of operations in the construction sector as a result of the economic recovery in the countries where the Company operates.
   - **Price increase**. We project a price increase based on inflation estimated by HR Ratings for all the products.
   - **EBITDA expansion.** We contemplate a 2021-2025 CAGR of 7.2% based on cost stabilization and the use of operating leverage within the recently acquired companies.
   - **FCF Generation.** Despite the working capital requirements will maintain constant as part of the business operations. EBITDA generation will be enough to offset the requirements. As a result, we contemplate an average FCF generation of P$4,175m in the forecasted period.
   - **Debt.** As of 2025 debt would decrease mainly driven by the amortization of credit facilities (BBVA and Club Deal credit facilities). FCF generation will be enough to maintain an average DSCR metric of 1.3x in the forecasted period.

2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:

   - **Sovereign debt.** Any change, positive or negative, to the sovereign rating for Mexico, and its outlook, would be reflected directly in the global rating for Grupo Lamosa.
   - **Operations Decrease.** If the Company presents a decrease in the demand for tiles and adhesives derivate from a slowing activity in the construction and industrial industries, as part of the economic uncertainty in the countries where they operate. The rating could be downgraded.
   - **EBITDA Margin.** If the Company maintains an average EBITDA margin of 10.0% for the forecasted period, it could result in a lower rating.
   - **FCF Generation.** If Grupo Lamosa presents a higher working capital requirement and this leads to a reduction in the free cash flow generation, the rating could be downgraded.
   - **Decrease in DSCR.** Lower FCF generation and/or increased debt service pressure, leading to a DSCR below 1.6x on a sustained basis throughout the forecast period, the rating could be downgraded.

14. <u>Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7</u>

The reporting of representations, warranties, and enforcement mechanisms does not apply to any of the credit ratings listed in this disclosure form

Credit Rating Attestation

I, Heinz Cederborg, Corporates / ABS Director have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities:
- The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

Mexico City, November 29, 2022

/s/ Heinz Cederborg, Corporates / ABS Director
HR Ratings de México, S.A. de C.V.

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The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee.

The ratings and/or opinions of HR Ratings de México S.A. de C.V. (HR Ratings) are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the HR Ratings classification methodologies, in terms of the provisions of article 7, section II and/or III, as appropriate, of the “General provisions applicable to the issuers of securities and other participants in the stock market”.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity’s performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. There Code of Conduct, HR Ratings’ rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The rating fee that HR Ratings receives from issuers generally ranges from US$1,000 to US$1,000,000 (or the foreign currency equivalent) per issue. In some instances, HR Ratings will rate all or some of the issues of a particular issuer for an annual fee. It is estimated that the annual fees range from US$5,000 to US$2,000,000 (or the foreign currency equivalent).