



**Credit
Rating
Agency**

A NRSRO Rating*

Nueva Elektra del Milenio
Nueva Elektra del Milenio, S.A. de C.V.

HR BBB- (G)

Corporates
June 30th, 2023

Rule 17g-7 Information Disclosure Form

Ratings

NEM LP Global

HR BBB- (G)

Outlook

Stable

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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
Nueva Elektra del Milenio	Downgrade	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](https://www.hrratings.com/docs/metodologia/Corporate_Debt_Credit_Risk_Evaluation_(August_2021).pdf)
- General Methodological Criteria, January 2023.
https://www.hrratings.com/docs/metodologia/General_Methodological_Criteria_January_2023.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 pledged 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.

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

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating. Is important to mention that NEM's rating is based on the Grupo Elektra rating assigned the past April 26, 2023. NEM is of strategic relevance within Grupo Elektra as it generates 32.9% of its total revenues, therefore HR Ratings considers that the NEM debt has a de facto guarantee by Grupo Elektra

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

Among the main information used for the rating is:

- Annual Audited reports from 2017 to 2021 provided by the Company.
- Internal quarterly financial statements and operational results from 1Q17 to 1Q23.
- Projections, budget and guidelines provided by the Company.
- Presentations issued by the Company.
- Relevant events and qualitative data provided by NEM.
- Macroeconomic assumption provided by HR Ratings' Economic Analysis area.

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

The quality of the information provided by the entity is considered to be consistent with the quality observed within the asset class.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17q-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 from such entity or issuer. 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, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions..

The rating 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 Rule 17g-7

1. Factors that are reasonably likely to lead to a change in the credit rating:
 - **Deterioration of Grupo Elektra results.** NEM's rating is directly dependent to the Grupo Elektra rating, therefore deterioration in the financial or commercial segments results of Grupo Elektra could directly negatively impact its rating and as consequence, directly affect NEM Credit rating.
 - **Working capital pressures.** Higher working capital requirements in the Grupo Elektra results due to a reduction of accounts payable days because of a change on the conditions agreed with suppliers or higher inventory days and cost due to a deterioration on the supply chain of its may products (motorcycles, telephony, and furniture).
 - **CAPEX requirements.** Higher investments than expected could result in more cash flow requirements for Grupo Elektra and NEM, arising into a higher indebtedness than expected.

2. The magnitude of the change that could occur under different market conditions determined by HR Ratings to be relevant to the rating:
 - **Lower volume growth.** An impact on the customer demand, could negatively impact the Grupo Elektra operating results that we expect, affecting the generation of FCF and could lead to DSCR and DSCR with cash lower than 1.2x and 3.0x for the period, this could result in a negative minimum impact on the rating.
 - **Stronger market competition.** If the Company is not able to maintain its market position and could not adjust to a highly competitive environment, it could lead to lower FCF generation that could result in a negative minimum impact on the rating.
 - **Inflationary pressures.** If the inflationary pressures continue and the Company is not able to increase prices or adjust their costs, revenue and EBITDA generation could be lower than expected with 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 Page 1.

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

13. 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

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.
 - **Credit rating based on Grupo Elektra's rating.** NEM credit rating is directly related to Grupo Elektra rating due to the importance of the Company to the Group as it consolidates the commercial business and is an important cash flow generation, however, any modification to the business structure or organigram of Grupo Elektra that changes this relationship could affect the credit rating of NEM. The global credit rating of NEM is based on the current Sovereign credit rating for Mexico which is HR BBB+ (G) with Stable Outlook.
 - **Revenues recovery.** Since 2Q22 the Company restructured its motorcycle business segment, then, we expect a revenues recovery as of 2024 through the mobile, electronics and furniture segments.
 - **Access to financial sources.** Is assumed that Grupo Elektra will be able to source sufficient funds through domestic savings and time deposits from Banco Azteca, by obtaining and using lines of credit from other financial institutions or by accessing debt capital markets. If Grupo Elektra and NEM are unable to access these financial sources, they may not have enough cash flow to implement their strategies and achieve the expected growth and could result into a deterioration of our Debt Service Coverage Ratio (DSCR) due to a lower cashflow generation possibly negatively impacting their credit rating.
 - **Indebtedness levels.** Taking into consideration Grupo Elektra and NEM's business plans and investments is expected that both entities will achieve the indebtedness levels assumed in our base scenarios for the period 2023-2026. A deviation of this assumption that resulted in a higher level of years of payment of Net debt to Free Cash Flow could result in a degradation of the credit rating.
 - **Banco Azteca will effectively control its delinquency ratio.** Is assumed that Banco Azteca will maintain a delinquency ratio below 10%, but, if Banco Azteca is not able to effectively control the levels of its non-performing or poor credit quality loans this could result in a deterioration of Banco Azteca's credit rating and in consequence Grupo Elektra and NEM credit ratings since the bank is part of the consolidated results of the Group.
2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:
 - If Grupo Elektra and / or Mexico's sovereign rating changes, the NEM rating will be directly change in the same way.
 - If the Company does not achieve the income recovery projected, it should result in a lower FCF generation, and it could result in a rating downgrade.
 - If Grupo Elektra and NEM are unable to access these financial sources, they may not have enough cash flow to implement their strategies and achieve the expected growth and could result into a deterioration of our Debt Service Coverage Ratio (DSCR) due to a lower cashflow generation possibly negatively impacting their credit rating.
 - If Grupo Elektra increases the years of payment, in positive levels, it could possibly negatively impact their credit rating.
 - If Banco Azteca increases the delinquency ratio up to 10%, it could possibly negatively impact their credit rating.

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

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



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Credit Rating Attestation

I, Jesús Pineda, Corporates Associate 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, June 30th, 2023

/s/ Jesús Pineda, Corporates Associate
HR Ratings de México, S.A. de C.V.



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A NRSRO Rating*

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* HR Ratings de México, S.A. (HR Ratings), is a Credit Rating Agency registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934. Limited and Preliminary ratings are not NRSRO rating assigned under HR Ratings registration with the SEC.

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, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

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).