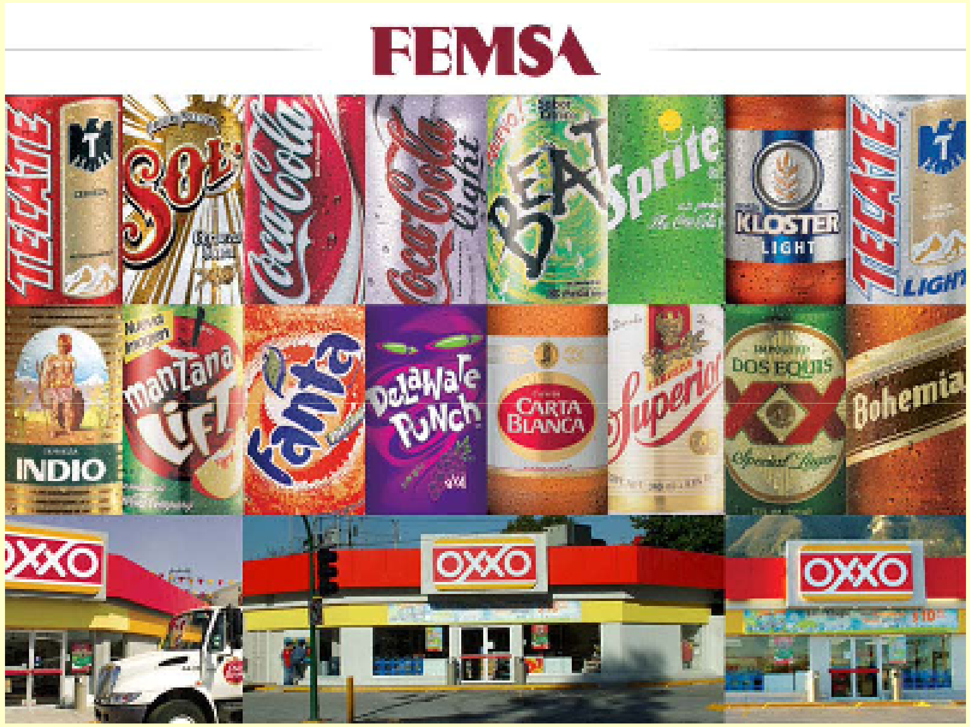
Fomento Economico Mexicano Sa

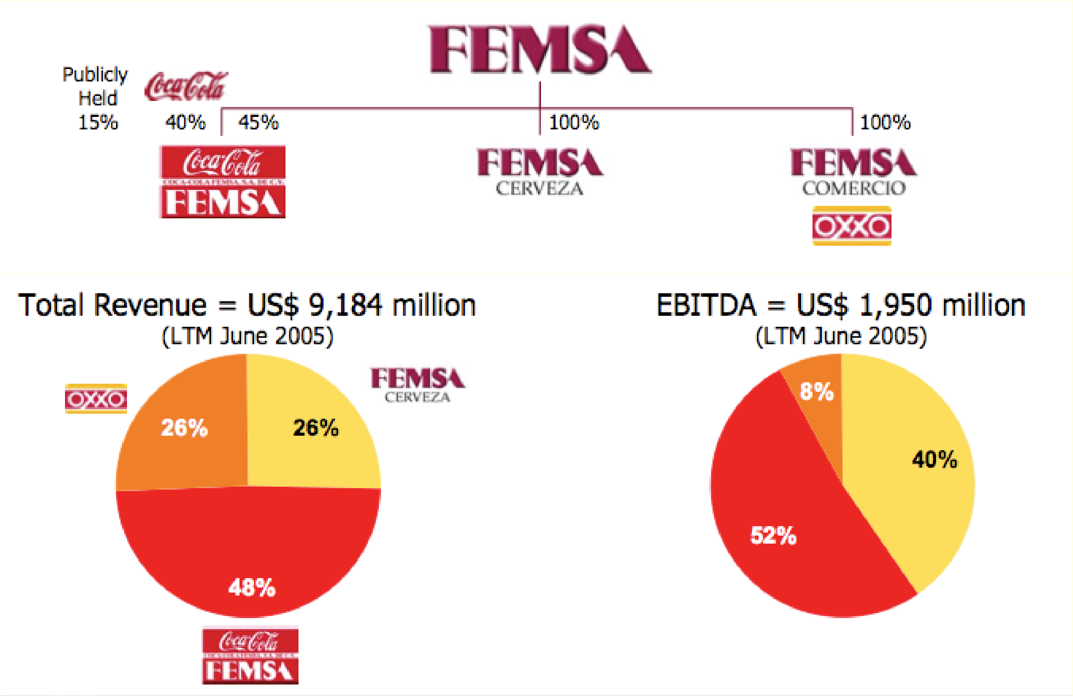


Degelis Tufts & Alberto Llaguno
McIntire Investment Institute

April 14, 2006

Business Overview

- FEMSA Cerveza
- Coca-Cola FEMSA
- Oxxo
- In last 5 years, has established the Strategic Business Division
  - FEMSA Empaques (packaging)
  - FEMSA Logística (logistic services)



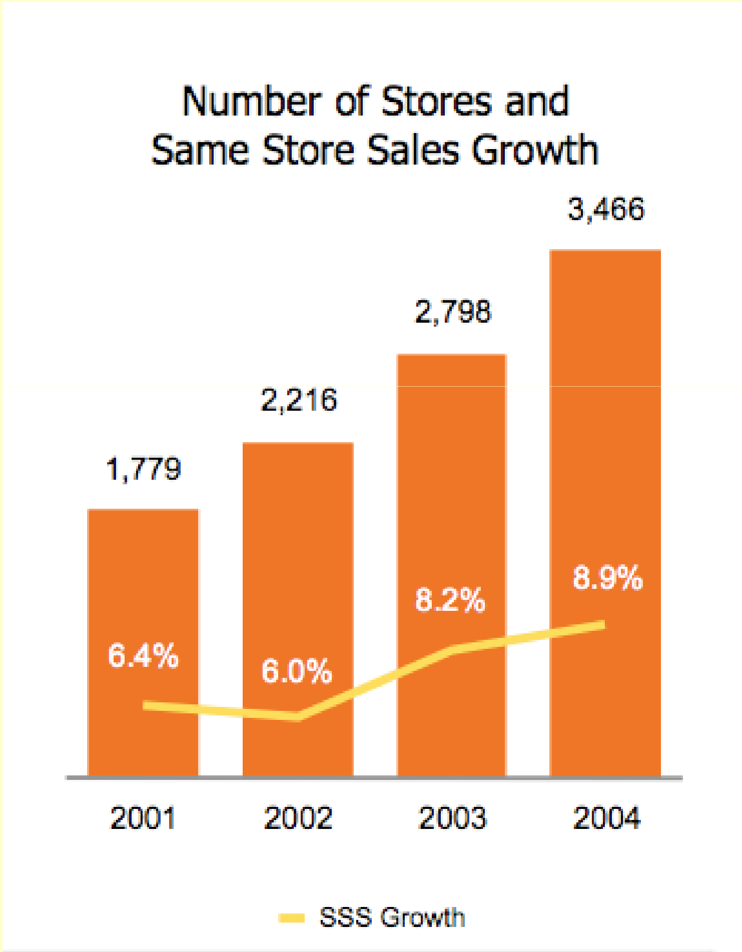
FEMSA Cerveza

- Produces and distributes recognized brands such as:
  - Tecate, Carta Blanca, Sol, Dos Equis Lager & Ambar, & Bohemia
- Produces its own glass bottles, aluminum cans and crown caps
- Grew total beer sales by almost 5% in 2005
  - Twice global beer growth average
  - Expanded Operating Margin for 10th Consecutive Year
- 5.4% of FEMSA Cerveza's total volume is sold through OXXO.

FEMSA Comercio: Oxxo

- FEMSA Comercio operates the Oxxo Commercial Chain
  - largest and fastest growing chain of convenience stores in Latin America
- 2005 was a record year for store openings & has doubled size since 2002
  - Opened a new store every 14 hours
  - Plans to open another 650 stores in 2006
- Sales of beer and soft drinks account for 25% of Oxxo's income
  - LARGEST CLIENT of Cerveza and KOF, only sell FEMSA brands
  - Share of Mexican beer market will grow as convenience stores opened
- Expanding product offerings that increase profit streams, such as fast food

Oxxo Stores Growth



Coca-Cola FEMSA (KOF)

- Bottler for The Coca-Cola Company
- Largest Coca-Cola bottler outside of US
- 12 bottling facilities throughout Central America
- FEMSA owns 45.7% of KOF's stock
  - Coca-Cola has 39.6%
  - remaining 14.7% listed on Mexican and NY stock exchanges
- Random fact: Monterrey (location of headquarters) is city that consumes most Coke & potato chips in world

Thesis Points

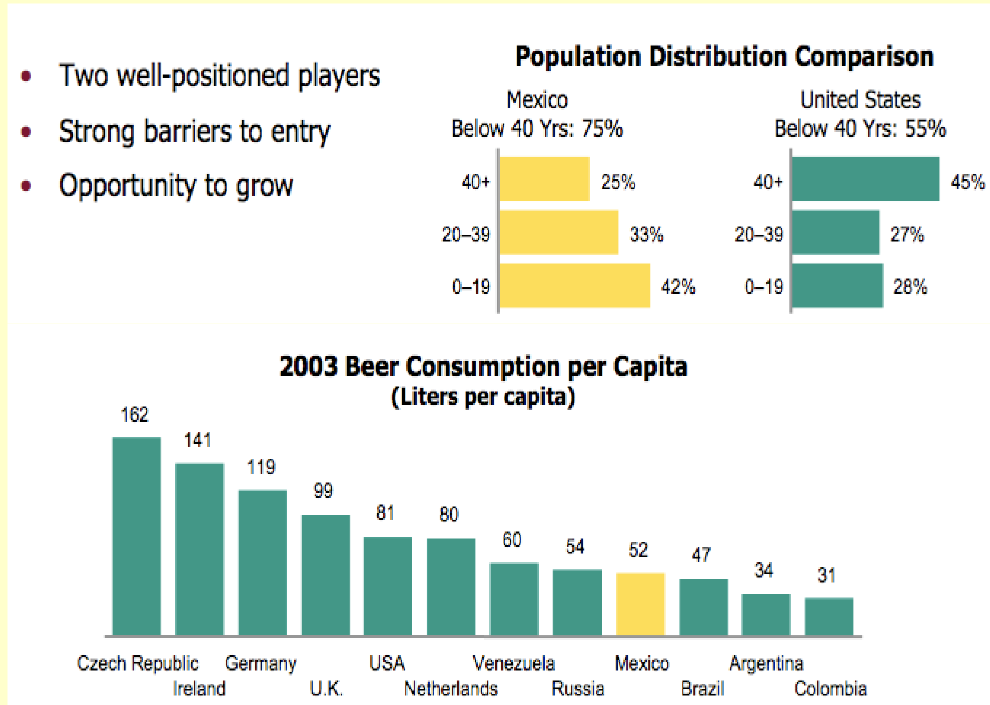
- Consistent Domestic and International Growth
  - Tapping into US Hispanic market
- Stable Demand
- Diversified
- "Synergy"
- International Recognition

Highlights

- **Forbes' "74 Global High Performers":** Only Mexican company, distinguished as #1 in food, drinks and tobacco sector
  - also best performance in sales, dividends and utility
- Sol: the fastest growing beer brand in Mexico AND Brazil
- #1 in soft drinks in 9 countries
- Great Advertising in Mexico
- EBITDA increased 21% per year during last decade
- Last decade:
  - 10.7% compound annual growth in revenue
  - 15.7% compound annual growth in operating income

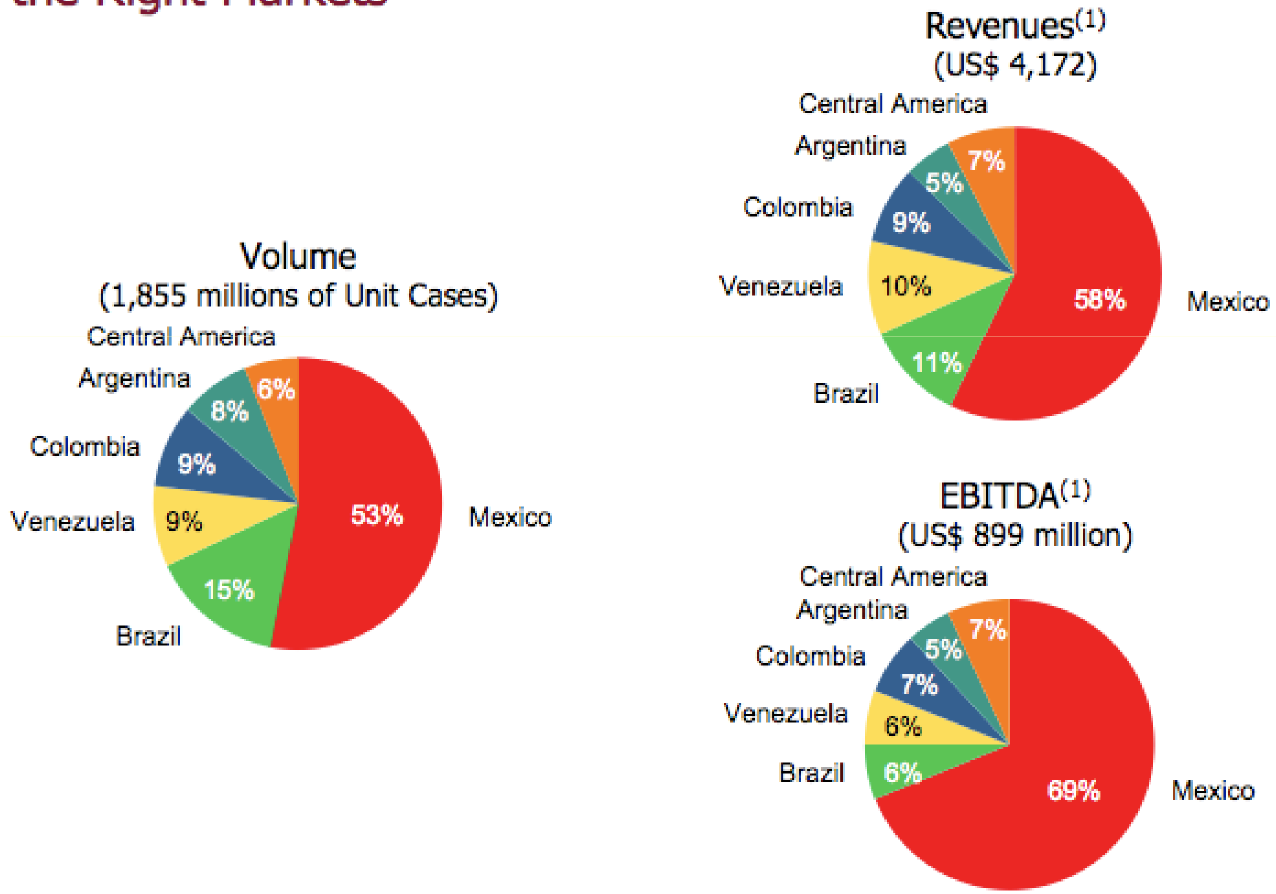
Demographics

- Favorable demographics
  - Latin American Nations have younger populations than in US
    - 40% of Mexico population under 20 years old
  - Consumption of beer is growing
- Beer exports to US increased by 7.5% last year b/c appealing to growing Hispanic population



Geography

In the Right Markets



Management

- Family-originated business
  - Family members still heavily involved
- Don Eugenio Garza Sada
- Jose Antonio Fernandez (CEO)
  - "El Diablo" Fernandez
    - Strong personality
  - Very philanthropic

2005 Activities

- Opened Mexico's first bottle-to-bottle recycling plant
- Opening of new Mega-Distribution Facility
  - speeds up independent distribution
- FEMSA Cerveza acquires 68% stake in Brazilian Brewer Kaiser (US $68 million)
  - now the only brewer with major operations in both Mexico and Brazil
    - two of the world's most attractive beer markets.

Commercial Agreements

- Heineken
  - Holland Brewery
  - Wholesale out of NY leads to East Coast double digit growth
- Sleeman Breweries, Canadian Brewer (Sep 2005)
  - national sales, marketing, and distribution agreement
  - significant growth opportunities for our Sol and Dos Equis brands across the Canadian market.
- Molson Coors, UK (Oct 2005)
  - sales, marketing, and distribution agreement
  - second most important export market after the United States.

Key Financials

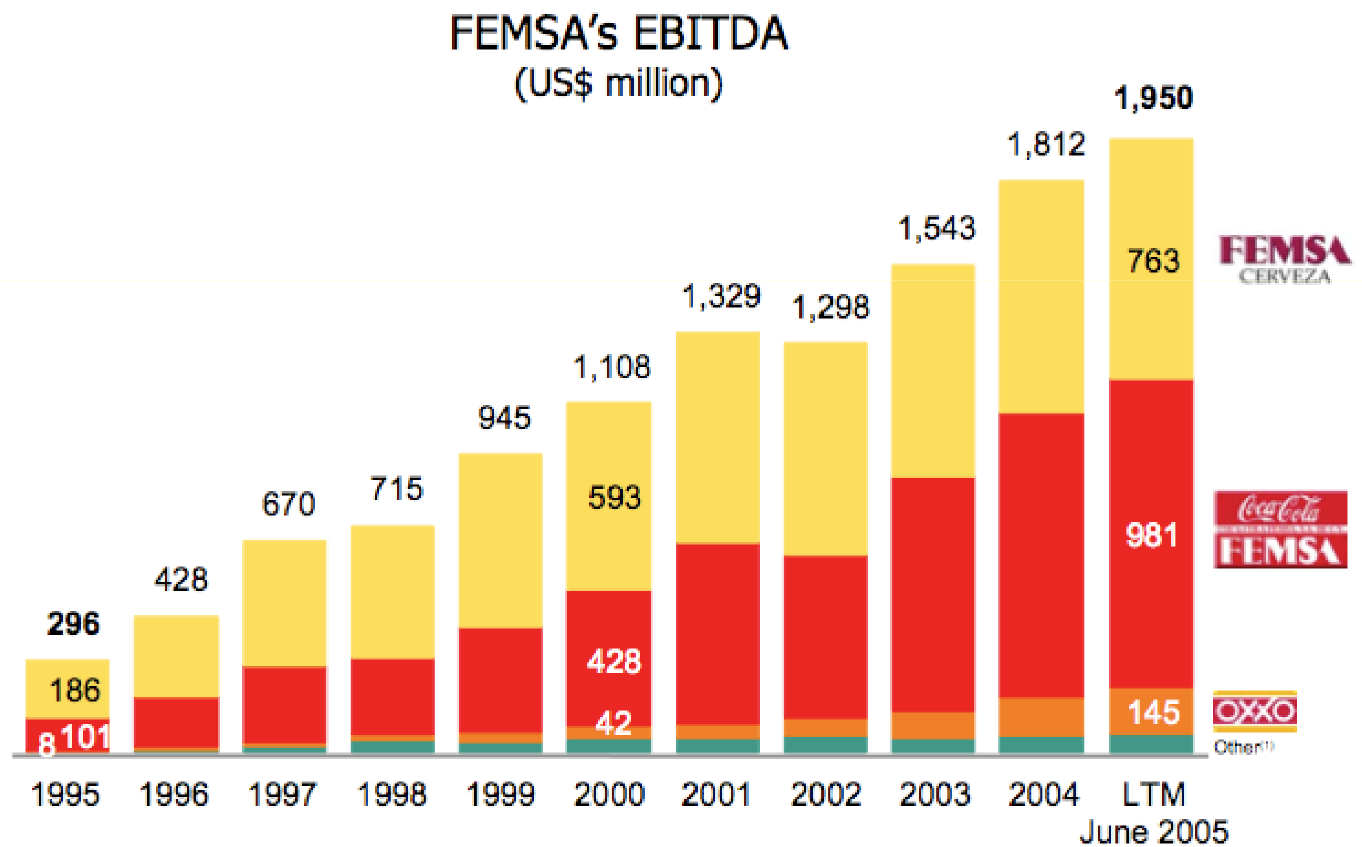
- Stock Price: 89.55
- Market Cap: 10.68 billion (mid-large cap)
- Revenue: 9.55 billion
- Profits: 2.02 billion
- Assets: 10.72 billion
- Employees: 90,731
- Dividend Yield: .6%
- Earnings/Share: $.88
- Trailing P/E: 21.12
- Forward P/E: 15.39
- Debt: 3.13 billion
- 52-week high/low: 50.47-93.85
- Expected earnings growth to $4.97/share this year, $5.83 in 2007

Stock price

FMX Daily
Price Channel(20)
90
85
80
75
70
65
60
55
©BigCharts.com
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
06
Feb
Mar
Apr

Growth by Division

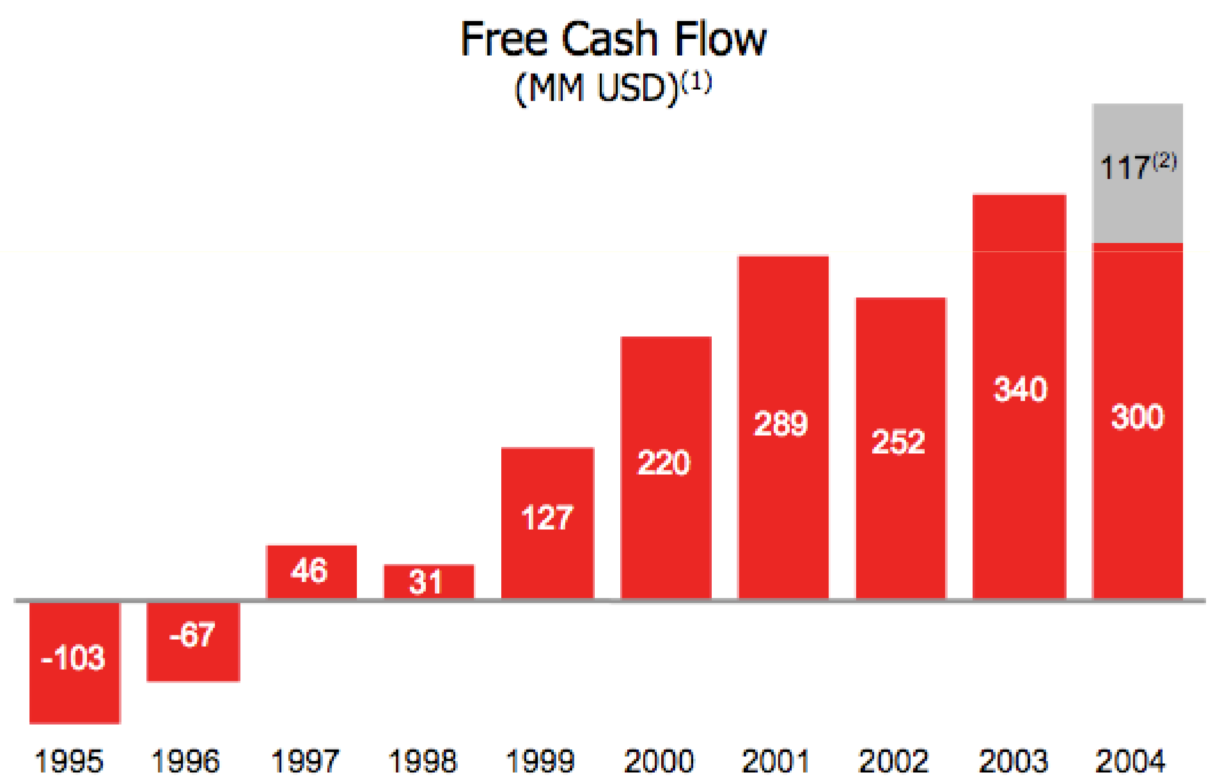
CAGR of 21% since 1995; *15% since 1990*



Note: CAGR = Compound Annual Growth Rate

Cash Flows

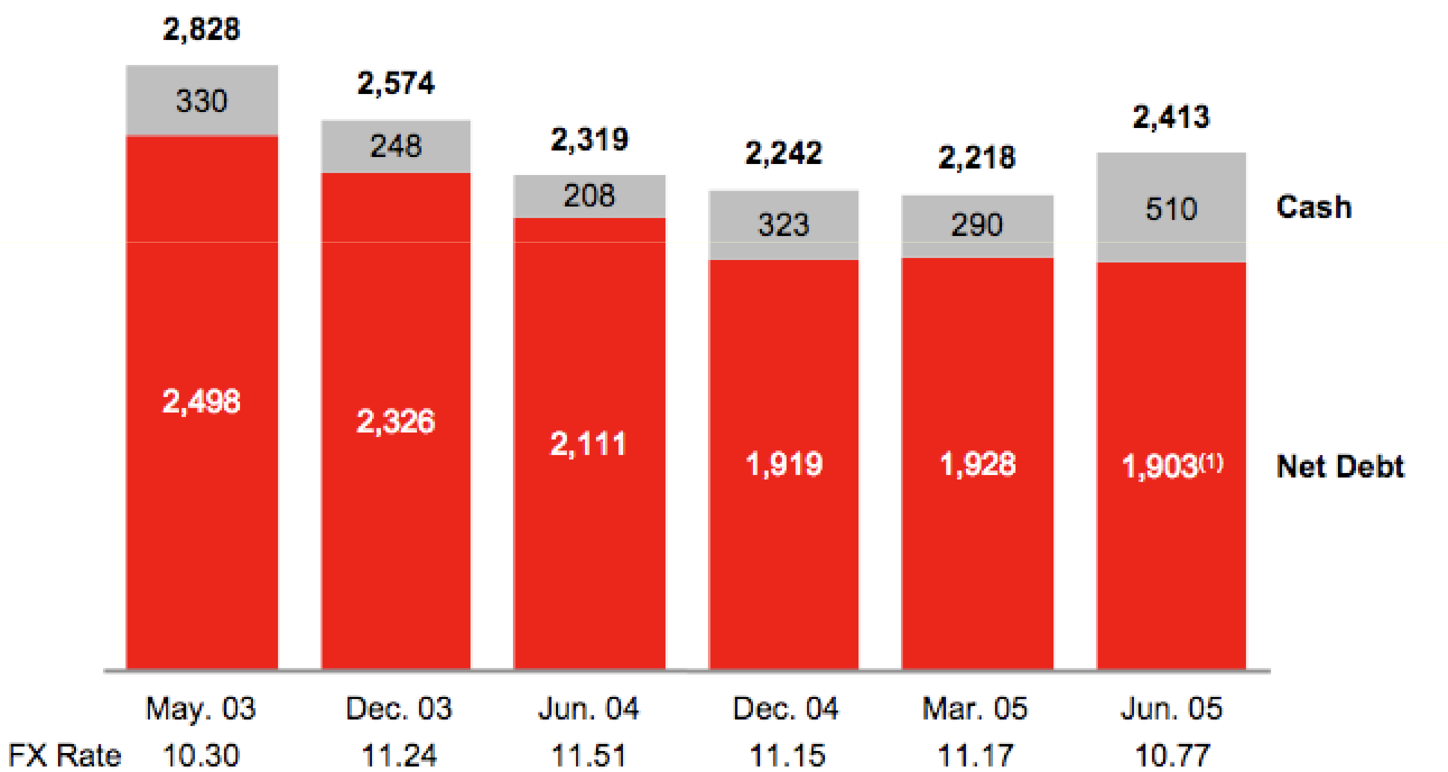
Strong cash flow generation supports our de-leveraging story



Note: Gray area is a tax reimbursement

Reducing Debt

Two years after acquiring Panamco we reduced net debt by US$595 million...

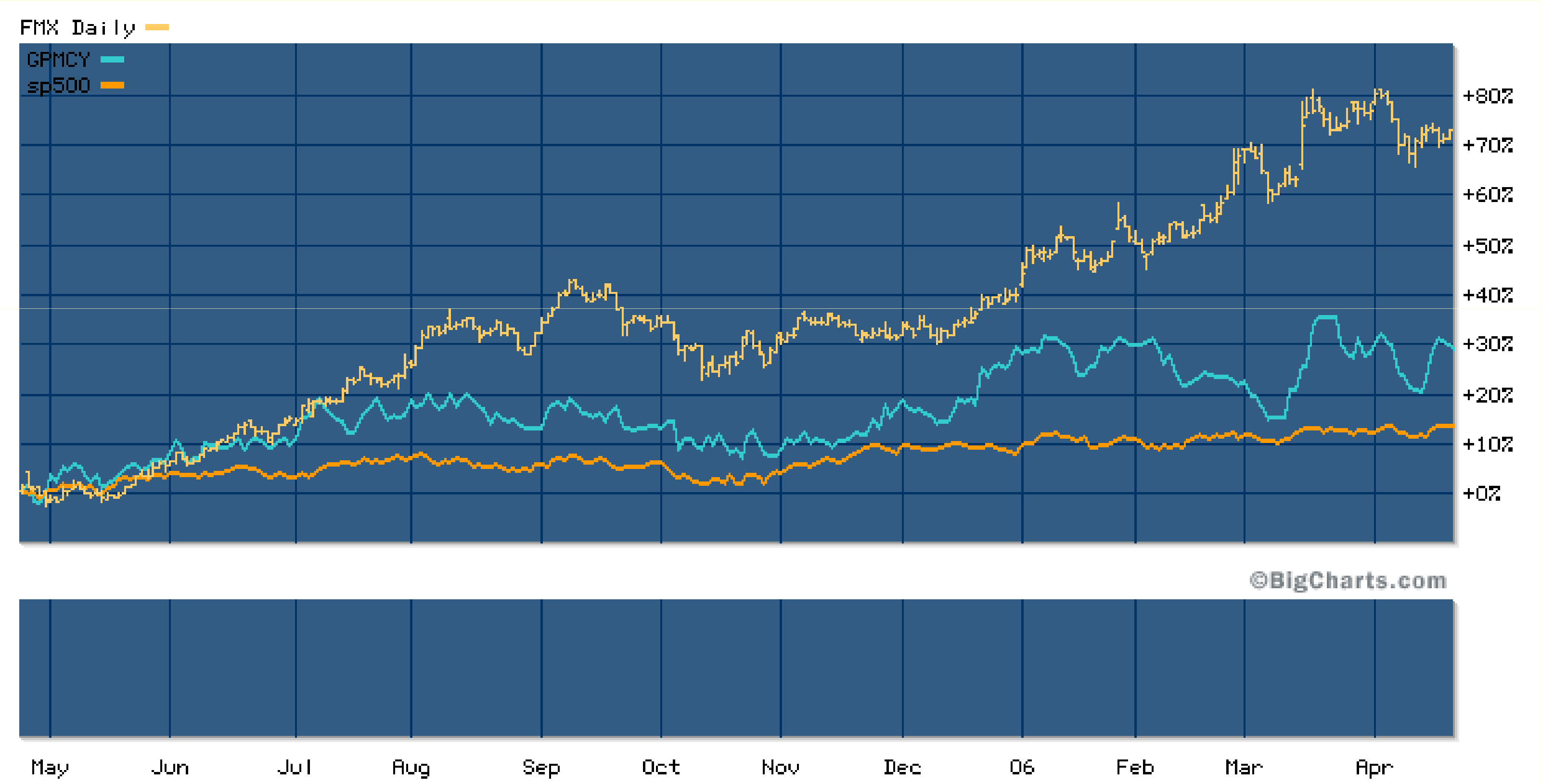


Panamco→ largest bottling group in Latin America and one of largest bottling groups of coca-cola products, acquired in 2002

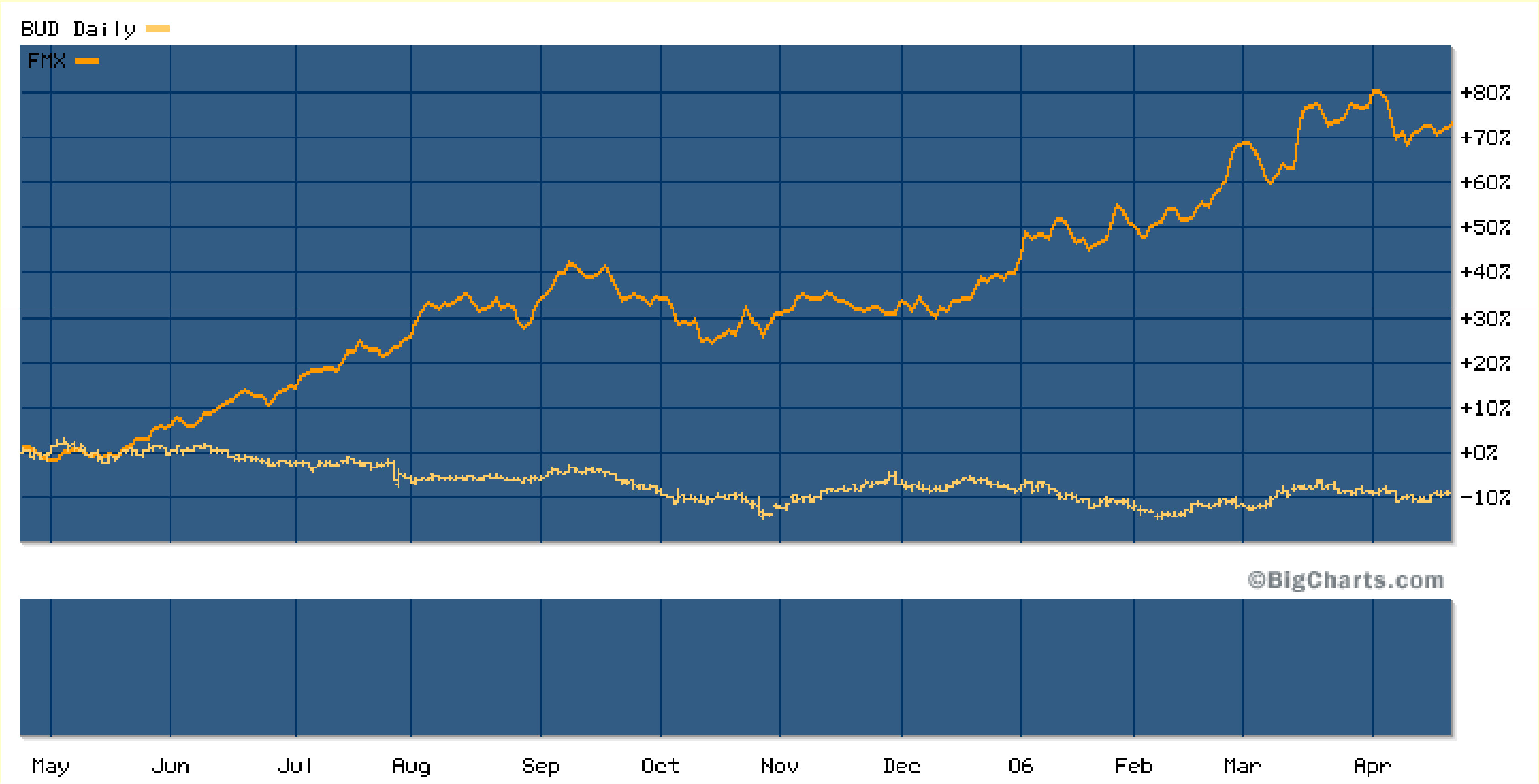
Competitors

- Grupo Modelo
  - Match each other's product innovations
    - Use each other as "benchmarks", but basically a war
  - Sol vs. Corona/Victoria
  - Oxxo vs. Extra
- Anheuser-Busch
  - Has 50% stake in Grupo Modelo
- 7/11 vs. Oxxo

FMX vs. GPMCY vs. S&P 500



FMX vs. BUD



BUD Daily
FMX
+80%
+70%
+60%
+50%
+40%
+30%
+20%
+10%
+0%
-10%
©BigCharts.com
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
06
Feb
Mar
Apr

Risks

- Family Management
  - Tendency to choose familial successors rather than best-qualified
  - Resistance to innovation: older generations have influence over internal changes
- Recently acquired Kaiser, a Brazilian Beer Division, from Molson Coors
  - Company has had its problems, but "Carlos Laboy, a Bear Stearns analyst, expects Kaiser to return to "modest profitability" next year." -WSJ
- Regional Instability
  - Venezuela, Bolivia, other Socialist Uprisings throughout Latin America
- Presidential Elections in July
  - Popular Candidate is Socialist: Manuel Lopez Obrador (PRD)
    - BUT, doesn't equate to abolition of free market capitalism
    - Company so large and powerful that actually have influence over government policy

Value-Added Research

- Al Sadler, Operations Manager of J.W. Seig
  - Anheuser-Busch distributor in Charlottesville
    - Sell wholesale to Central VA
- Emily Klingbeil, Investor Relations Rep for FEMSA
  - Ex-Lehman Investment Banker; hired for Spanish skills
- Cibelly Cabral, Ethnic Markets Specialist @ Mediamark Research
  - Useless
  - Did all research for demographic info for Beer Industry from Anheuser-Busch website
    - Basically anything they found is on the website
- Fratting Hard
  - Obviously The Hall had to have *imports* in their kegs Saturday (Dos Equis)
    - Conclusion: fratboy tested, Dega approved

Al Sadler, J.W. Seig

- 5% of business is import based
  - Carry Sol and Dos Equis
    - Harris Teeter and Kroger carry these
  - Carry imports to stay competitive
  - give customers a wider selection and to supplement A-B products
- Import sales are increasing for them right now, and nationwide
  - Beer industry has been flat for 2-3 years but imports up
    - Tecate and Dos Equis having an upsurge right now
- Beer is a luxury people don’t want to give up even in times of economic downturn, part of lifestyle
- Not too important that FEMSA isn’t heavily advertising
  - Marketing doesn’t push sales as much as people’s desire for variety

Emily Klingbeil

- Partner Commercial Agreements
  - Wants to maintain independence while using temporary contracts to expand business
    - Ex: Heineken, 3-year contract in distribution to East Coast
- Possible Risks: Presidential Elections shouldn’t be a huge risk to company because it has survived a variety of political and social changes over last 110 years
- Mexico in strongest economic position its ever been
- Main market is in Mexico
  - but expansion into other Latin American countries has created many new foreign director positions
    - positive factor because they are more familiar with domestic business environments
- Positive corporate atmosphere, employees optimistic about future growth of company

Gordon takes VAR of XX to unprecedented levels in Cabo San Lucas

Why FEMSA?

- The last five years have been decisive for FEMSA
  - The company has not only doubled its operating income, but significantly strengthened its financial structure
- Vertical Integration: Beverages, packaging, crown caps, labels, refrigerators
- Guaranteed growth through store openings and contracts
- "Synergy" with Oxxo and beer/coke