Investor Relations

MONTERREY
ULISES FERNÁNDEZ DE LARA
ulises.fernandezdelara@arcacontal.com
Tel: 52 (81) 8151-1525

FELIPE R. BARQUÍN GORIS
felipe.barquin@arcacontal.com
Tel: 52 (81) 8151-1674

NEW YORK
MELANIE CARPENTER
I-advize Corporate Communications
Tel: 917-797-7600
Mcarpenter@i-advize.com

Public Affairs and Communications

GUILLERMO GARZA
guillermo.garza@arcacontal.com
Tel: 52 (81) 8151-1441

FIDEL SALAZAR
fidel.salazar@arcacontal.com
Tel: 52 (81) 8151-1441

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CONFERENCE CALL

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Operator: Good day, everyone, and welcome to the Arca Continental conference. All lines have been placed on mute to prevent any background noise. Please note that this call is being recorded. After the speakers' remarks, there will be a question-and-answer session, and instructions will be given at that time. For opening remarks and introductions, I would now like to turn the conference over to Melanie Carpenter of I-Advize Corporate Communications. Ma'am, please go ahead.

Melanie Carpenter: Thank you, Katie. Good morning, everyone, we hope you're all well. Thanks for joining the senior management team of Arca Continental this morning to review the results for the second quarter and first half of 2021. The earnings release went out this morning and it's available on the Company website at arcacontal.com in the Investor Relations section.

It's now my pleasure to introduce our speakers. Joining us from Monterrey is the CEO, Mr. Arturo Gutierrez, the CFO, Mr. Emilio Marcos and the Chief Commercial and Digital Officer, Mr. Jose "Pepe" Borda, as well as the Investor Relations team. They're going to be making some forward-looking statements, and we just ask that per usual, you refer to the disclaimer and the conditions surrounding those statements. And with that, I'm going to turn the call over to the CEO, Mr. Arturo Gutiérrez, to begin the presentation. So please go ahead, Arturo.

Arturo Gutierrez: Thanks, Melanie, and good morning, everyone. I hope you and your families are well.

Let me begin by saying that we are pleased with our second quarter and first half results. We delivered a strong performance across the board, showing our continuous progress and positive momentum.

As we reached the midpoint of the year, we continued to see volume recovery across all our markets. All five beverage business segments performed well, as consumers gradually returned to pre-pandemic activities.

Our results reflect our strong market focus, diversified portfolio, agile supply chain and disciplined market execution. With this as the backdrop, let me now provide key highlights of the quarter.

Total consolidated volume grew 9.6%, reaching 578 million-unit cases.

Volume remained positive across our largest channels. The traditional channel in Mexico and supermarkets in the U.S. grew by low-single digits year to date, and with both channels already above 2019 levels.

Total consolidated revenues rose 6.7% in the quarter and 5.4% year-to-date to $45.8 billion and $86.3 billion pesos, respectively.

Our revenue management capabilities allowed strong pricing power, combined with optimizing our price-pack architecture and better management of promotions.

Consolidated EBITDA for the quarter grew 14.1% reaching $9.4 billion pesos, representing a margin of 20.5%, for an expansion of 130 basis points.

Despite the specter of rising inflation, we mitigated the ongoing input and transportation cost pressures. Our timely hedging actions and strategic negotiations with suppliers, allowed us to offset pressures, while growing earnings faster than sales.

This is the fourth consecutive quarter of margin expansion and the highest EBITDA margin for the second quarter since 2016.

We continued accelerating our digital agenda, with initiatives such as AC Digital. More than 100 thousand customers are already actively using our mobile e-commerce application to place orders directly from their smartphone in real-time.

Let me expand on the results across our geographies.

In Mexico, our beverage business maintained steady momentum, delivering another solid quarter of volume growth, up 5.3%, driven by resilience of the traditional trade and recovery across major channels such as supermarkets, at work, on-premise, and entertainment.

This was the third consecutive quarter of volume growth for Mexico despite the Covid 19 pandemic. We are beginning to see encouraging signs of sustained recovery, particularly in the on-premise channel.

Remarkably, we are already achieving pre-pandemic volumes, with 1.1% growth compared to the same quarter of 2019.

Among the quarter´s highlights, volume growth was supported by all categories: sparkling with 2.2%, stills 26.2% and water at 30.6%.

Total net sales in Mexico rose 15.5% to reach $20.7 billion pesos, marking the twentieth consecutive quarter of net revenue growth.

The average price per case in Mexico, not including jug water, rose 8.2%, reaching $68.63 pesos, sustained by our disciplined execution, revenue management and affordability strategies.

We strengthened our market leadership position as we gained value share in NARTD beverages this quarter, driven by still beverages categories, mainly juices & nectars, sports drinks, and energy drinks.

We look forward to another significant push for Powerade this summer with the sponsorship of the Tokyo Olympic Games.

Single-serve mix grew 6.8% as mobility restrictions began to ease, and lockdowns were lifted. We will continue investing in targeted market initiatives to boost immediate consumption and capitalize on the recovery, as more points of sale have reopened across our territories in Mexico.

EBITDA increased 11.5% to $5.4 billion pesos in the second quarter, representing a margin of 26.3%, for a contraction of 100 basis-points.
Moving now to our beverage business in South America, total volume in the second quarter grew 30.7%, resulting from solid positive volumes across all our operations in the region.

We see a sequential positive trend quarter on quarter across channels despite curfews and mobility restrictions reinstated due to a new wave of Covid-19 cases in the region.

Volume growth has been supported primarily by the traditional channel, while the on-premise channel is showing sustained recovery.

Total revenues for South America rose 9.9% in the quarter to $7.5 billion pesos. In comparison, EBITDA increased 46.5% to $1.2 billion pesos, representing a margin of 16%, for a robust expansion of 400 basis points.

Our Argentina beverage business posted a solid 15.1% volume growth in the second quarter, driven by colas, personal water and still beverages, up 8%, 25.1% and 129.1%, respectively.

Coca-Cola posted a favorable performance, up 8%. The remarkable growth in Stills was driven by Powerade, Monster and Ades in the soy beverage category.

We continued investing in returnable bottles for both sparkling beverages and flavored water. These packages support product affordability while reducing our overall production cost.

Let’s turn to Peru, where total volume in the quarter grew 41.2%, once again led by the traditional trade and on-premise channels, both growing at double-digit rates.

We grew value share across NARTD beverages, driven by still beverages and water categories, sustaining the recovery trend.

Still beverages also posted substantial share gains, driven by the sports drinks, flavored water, and juice segments.

Our commercial initiatives focused on protecting portfolio affordability during the quarter via an accelerated introduction of multi-serve returnable packages.

A key element of this plan is the 2.0-liter PET Universal Bottle package, which provides a wide variety of products at very competitive prices.

Notably, the on-premise channel has started to recover despite the mobility restrictions that are still in place due to Covid-19.

As part of our digital playbook in Peru, this quarter we reached a significant milestone of 52 thousand customers in the traditional channel utilizing our AC Digital B2B platform, regularly placing orders using our mobile app.

Moving over to Ecuador, volume grew 27.1% for the quarter. Volume recovery was driven primarily by the traditional trade, supermarkets and on-premise.

On-premise recovery is driving increases in the immediate consumption mix. In fact, single serve in Ecuador has increased 10.8 percentage points year to date.

This quarter, we relaunched Coca-Cola Sin Azúcar with a new formula and a new visual identity. This new version offers consumers a great taste and refreshment that is even closer to the iconic Coke Original taste, and with no sugar or calories.

Tonicorp, our value-added dairy business, posted a low single-digit sales increase in the quarter while capturing additional value share, driven by yogurt, flavored milk, and ice cream categories.

The modern trade led the recovery from a channel perspective, driven by the value-added milk category, which includes Skim, Semi-Skim and Lactose-Free, and innovations in the premium segment.

We continued adapting our portfolio to address the new market dynamics with products that combine high nutritional properties and affordability.

We were able to achieve these encouraging results in Ecuador despite nightly curfews and restrictions on business operations and mobility, implemented as part of the country's effort to contain the spike in COVID-19 cases.

We will now turn to our beverage operations in the United States, which delivered another quarter of strong volume, revenue, and profit growth.

Our solid price-package strategy yielded great results with net sales growing 13%, reaching $819 million dollars in the quarter.

Net price grew 7.3% with a true rate increase of 4.1% and 3.3% in mix, driven mainly by the shift in volume mix to high-profit per-case channels and packages.

Volume grew 5.3% in the second quarter, driven by the Large Store channel. Also, the FSOP channel posted the fourth consecutive month of positive volume, as we see businesses reopen.

We also continue leveraging mycoke.com and now have 53% of our FSOP customers ordering through the platform, generating cost-to-serve savings as the FSOP channel reopens.

EBITDA for the quarter increased 30.4% to $138 million dollars, representing a margin of 16.9%, for a strong expansion of 230 basis points.

Notably, this is the 12th consecutive quarter of EBITDA growth and the highest in any quarter since we acquired this operation in 2017.

Also in the quarter, we completed the rollout of our new service models for Home Market across all our Sales Centers.

We also reinforced our commercial capabilities with the implementation of the new Sales Force Customer Relationship Management tool.

This has been a game changer for our FSOP go to market strategy, enabling us to have more productive conversations when we visit our customers.

We continued driving innovation in our beverage portfolio. This quarter we launched BodyArmor Edge in four different flavors and Dr. Pepper Zero Sugar which already achieved over 90% market penetration.

This quarter we made important investments to further improve the safety of our drivers and those around them by implementing a collision avoidance management system and a cellphone usage management system as well.

Shifting gears to our Food and Snacks business, starting with Bokados in Mexico.

Bokados posted a double-digit sales increase, with EBITDA ahead of sales, capitalizing on the resilience of the traditional trade and the recovery of the supermarket segment.

We are also accelerating the program in Mexico to expand partnerships with global CPG companies such as Kellogg's and other leading confectionary brands, generating incremental sales and greater productivity of our distribution system.

Wise Snacks in the U.S. posted a low-single digit sales decline in this quarter.

Deep River potato chip sales in the U.S. continued to rebound as the Food Service channel recovers. We are placing strong focus on the Up & Down the Street segment to capture small bag sales as business returns, particularly in the New York City metro area.

The e-Commerce channel in the U.S. continued its strong performance by expanding our on-line presence and working with Instacart to improve ad activity and become more relevant in the on-line environment.

In Ecuador, Inalecsa posted a high single-digit sales increase in the quarter, supported by the recovery of the traditional channel.

We continued to spark consumer-centric innovation in our portfolio with the launch of a new portfolio of mixed snacks. We began to participate competitively in this new segment and captured additional value share in salty snacks.

And now to wrap-up our operations review, let me provide you an update on the most relevant ESG activities in the second quarter.

As part of World Recycling Day, Arca Continental together with the Coca-Cola Industry in Mexico announced a three-year plan to invest $11 billion pesos in infrastructure projects, aimed at the country's sustainable development.

Our joint initiatives which are focused on the recovery and recycling of PET waste have so far created more than 2,900 direct jobs and over 35 thousand indirect jobs to date.

Moreover, our beverage operation in the U.S. recently announced its commitment to double the amount of recycled content across the entire plastic packaging portfolio and significantly reducing the use of virgin plastic. By the end of 2021, recycled PET will account for 50% of every new plastic bottle that we produce.
These initiatives are an integral part of our business growth strategy and part of our efforts to promote a circular economy.

And with that, I will now turn the call over to Emilio. Please Emilio.

Emilio Marcos: Thank you, Arturo. Good morning everyone and thank you for joining us.

After a strong start to the year, we continue to see solid momentum in our markets supported by a steady volume recovery, along with strong pricing, and continuous discipline in OPEX to mitigate the pressure in commodity prices.

Let me now provide you with further color on our financial results:

Consolidated Revenue for the second quarter increased 6.7%, primarily driven by solid top-line recovery in all regions and strong price/mix in Mexico and the US. Currency neutral, Net Revenue grew 16.5% since we are cycling a 14% appreciation of the Mexican Peso against the U.S. dollar. Consolidate Revenue for the first six-months of the year rose 5.4% to $86 billion pesos and 10.9% on a currency neutral basis.

Gross profit grew ahead of revenue at 7.6%, reaching $20.8 billion pesos, representing a contribution margin expansion of 40 basis points. This improvement was mainly driven by strong topline growth, pricing strategies, and an overall mix increase of single-serve presentations across all markets.

As we have been discussing for some time, we have reached an agreement with The Coca-Cola Company for an increase in concentrate for sparkling beverages in Mexico, similar to the one in 2020 and effective as of July 1st of this year.

The agreement is part of our business partnership over the long-term, allowing each other to focus on strengthen the Coca-Cola system. As part of the agreement, we are investing together to enhance our infrastructure to constantly evolve and improve how we serve our customers in Mexico, which will be beneficial to both parties.

Our OPEX-to-sales ratio decreased by 200 basis-points, as we continued to maintain a tight control of SG&A expenses and favored by the strong top-line performance. This resulted in an increase of 27.3% in Operating Income to $7 billion pesos, for a robust expansion of 240 basis points.

Consolidated EBITDA for the quarter reached $9.4 billion pesos, an increase of 14.1%, a healthy expansion of 130 basis points to reach a 20.5% margin. This is the highest EBITDA margin for a second quarter since 2016. If we neutralize FX, EBITDA in the quarter grew 21.1%. [Year-to-Date], EBITDA margin expanded a solid 160 basis points. Compared to pre-pandemic levels of the second quarter of 2019, EBITDA grew 16.2%.

EBITDA increased at two times the rate of revenue, demonstrating the important operating leverage of our business.

We will continue our holistic cost management plans to optimize OPEX, and together with our revenue management initiatives, maintain a healthy ratio of OPEX-to-Sales throughout the year.

Net Income grew 34% for the quarter, for a robust net margin expansion of 140 basis-points, as we saw a decrease of 8% in the Comprehensive Financial Results, coming from a reduction of 15% in interest expenses. The latter resulted from our effective financial management, as we deployed initiatives to refinance and improve terms of our outstanding debt.

For the six-months ended in June, Net Income rose 14.9% with a 50 basis-point expansion.

Now let me expand on our successful green bond issuance which was completed during the quarter.

Consistent with our financial discipline and in line with our sustainability strategy and environmental commitments, our subsidiary AC Bebidas priced our first Green Bond on the Mexican Stock Exchange, for a total amount of $4.65 billion pesos, at one of the lowest spreads for a corporate issuer in recent history in the country.

Proceeds from this bond will be allocated towards green projects that mitigate emissions from production activities, compensate for water consumption, reduce waste and maximize recycling programs, renewable energy, pollution prevention and clean transportation. These categories are aligned with those recognized by the Green Bond Principles and the Sustainable Development Goals of the United Nations.

Now, moving onto the balance sheet.

As of June, Cash and cash equivalents stood at $31 billion pesos with a total debt of $52 billion pesos, resulting in a leverage ratio of 0.6 times.

CAPEX was $2.4 billion pesos, around 12% less versus the same period of last year.

While we expect to face headwinds in raw material prices in the coming quarters, we are optimistic on the positive momentum of our top-line to return to pre-pandemic levels, supported by the recovery of the On-Premise channel.

This will continue driving increases in single-serve presentations, which, along with our pricing strategies, will allow a better price/mix. In addition, we will continue pursuing efficiencies in OPEX to maintain our strong profitability.

And with that, let me hand it back to Arturo.

Arturo Gutierrez: Thank you, Emilio.

As we enter the summer and vaccination efforts are accelerating, we see consumer dynamics also improving. This is already becoming evident in retail, travel, dining, and entertainment.

As we navigate our way through to the end of the pandemic, we remain cautiously optimistic. With new mobility restrictions as well as the new variants of the virus, it is clear that adversity is not completely behind us.

Nonetheless, our business momentum remains strong. While some consumer behaviors and preferences may shift as population mobility increases, we are well-positioned across categories and channels to succeed and win in the marketplace.

This implies an even greater commitment to leverage our scale and continue growing, focused on excellence in everything we do.

Looking forward, we will continue to invest in our business for the long-term, led by our sustainability agenda and, very importantly, led by our digital transformation.

In summary, our solid financial position, our balanced geographical presence, and our firm commitment to serve our customers and consumers, are the basis from which we will continue seeking profitable growth opportunities.

And before we open the floor for questions, I would like to close by saying that we are celebrating our 20th anniversary as publicly traded company, as well as the 10th anniversary of the merger between Arca and Continental. Certainly, a period of significant milestones in our history.

Today, led by the effort and commitment of our associates we are one of the world's largest Coca-Cola bottlers but more importantly, we are a better company in every way.

The outstanding results we have obtained reaffirm our commitment to expand the business opportunities in all the markets we serve, thereby fulfilling our goal to generate maximum value for our customers, associates, communities, and shareholders, while always satisfying the expectations of our consumers with excellence.

That concludes our remarks. Katie, we are ready for questions please.

Operator: Thank you. At this time, we will open the floor for questions. If you would like to ask a question, please press the star key, followed by the one key, on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, please press star two. As a reminder, due to high interest and time, please limit yourself to one question. We will pause for just a moment to allow everyone the opportunity to signal for questions.

Our first question comes from Ben Theurer of Barclays.

Ben Theurer: Hey, good morning, Arturo and Emilio. First of all, congrats on the strong results. Just a question around like the input cost challenges and you've mentioned that in July you're going to see an increase on the concentrate prices. Could you elaborate a little bit on what you think going forward in terms of the pricing strategy in the region. Just to kind of start working offsetting that through and also what are your considerations in light of other input cost materials that have gone up? That would be my one question. Thank you.

Arturo Gutierrez: Yeah, sure. Good morning, Ben. And thanks for your question. Well, as you know, pricing has been very important for us and developing this capability on RGM has been instrumental in achieving the profitability and the margins that we have obtained so far. So we're going to continue with the same idea - adjusting prices in line or above inflation. We are confident that we are going to be able to do that. We've had a positive carryover, especially in Mexico and the US from increases that we've made before and at the beginning of the quarter, even last year. And also, as immediate consumption has been recovering in both of those markets, we are now seeing a positive mix effect in price.

South America, the story is a little different. Our priority is to focus on affordability mostly with returnable presentations, which are also profitable but have a different effect on average pricing. But that gives us a solid architecture in those markets. But we do have an impact on mix in South American countries, as you know, a negative mix effect both in Peru and Ecuador. In Argentina, we've been able to maintain prices in line with inflation although inflation has been quite challenging this year as the years before. But we have seen some prices rising for raw materials - we didn't see a significant impact in the quarter. That's in part thanks to our hedging strategy, particularly aluminum. So I will let Emilio elaborate a little more on that and raw material pricing, but basically, I would say that in the second quarter, the most noticable increase would be aluminum and we have hedged our prices in the US, it's where we mostly require that input.

Emilio Marcos: Yes, thank you, Arturo. Hello, Benjamin. Yes as Arturo mentioned we are experiencing price increases across all our main raw materials and we expect in the following quarters further pressure, primarily in PET, aluminum and sweeteners. But as Arturo mentioned we have hedges in most of them, for example, aluminum, we have 90% hedge on the needs for 2021 at a lower price than 2020 and much lower than the current market prices. We have a partial hedge on PET - only 30% above 2020 prices - but lower than the market prices. Also, we have 90% hedged our high fructose prices a little bit higher than inflation, but for US needs and some of the Mexican needs.

In Peru, we also hedge 83% of our needs for sugar and some diesel for US. So basically what I'm trying to say is that really the impact this year for us will be mainly on PET prices. All other raw materials are hedged or as you know in sugar we were integrated with PIASA in Mexico and with the sugar mill in Argentina. So we are offsetting all these with the price strategy that Arturo already mentioned.

Arturo Gutierez: And not only the pricing strategy as you know, we've also launched a thorough cost savings and efficiency plan across our operations to look for opportunities in OpEx and costs in other areas including strategic sourcing, management of labor, overtime, routing, cost to serve, etc.

Ben Theurer: OK, perfect. Thank you very much Arturo and Emilio.

Arturo Gutierrez: Thank you, Ben.

Operator: Our next question comes from Felipe Ucros of Scotiabank.

Felipe Ucros: Thank you, good morning Arturo, Emilio and team. Congrats on the results again.

Let me ask you a question about the store visits in the US. It was very evident in the data from your commentary that you're visiting clients at a higher frequency and also doing it more efficiently. Obviously that's great news, so congrats on that front. I was hoping you could talk a little bit more about how much of these is coming from the simple reactivation of the economy and then how much of it is coming from your efforts on myCoke.com, which I assume is freeing up time for sales associates do more visits? Thanks.

Arturo Gutierrez: Yeah. Thank you, Felipe, and good morning. Well, as we've said before, part of our transformational effort in the US market was to evolve in our service models with our customers and these were some of those synergy projects that probably were not really accounted as hard synergies initially, but we really believe that these were very transformational and that will create this new foundation of the business for years to come, and that we're going to be reaping the benefits of those initiatives over time.

So one of those is precisely how we evolve our service models; initially it was the FSOP market that has a very important element of that is precisely the order taking or the myCoke.com operation. And those have progressed very nicely. We have reached more than 50% - actually 53% of eligible FSOP customers with the platform in the US myCoke. So, the effect is double you know as the channel again recovers, and we are not back to where we were in the pre-pandemic number of customers operating in volume, but we believe we are operating more efficiently, and it has to bring both benefits. It's more efficient from the perspective of cost to serve of those customers and also it provides better service. I think the ideal model is where customers are satisfied with service through myCoke and also the combination of our visits, but visits have to be for different purposes. So it also requires the retraining of our front-line sales force so that they can create different value dialogues with our customers, and also increase coverage of new products and a number of things that we continue doing in the on-premise market.

Also, it's worth mentioning that the evolution of service models is not only for FSOP – that was the initial step - but we completed the rollout of our Go to Market 2.0 service models for home market as well and that would be for every sales center where we operate. And this also has improved our execution. We've increased our visits by 28% versus the previous quarter, which is quite significant, and that generates more orders and I would say it generates also more customer intimacy, which is basically what we want to accomplish through these projects. So, I don't know if, Pepe, you want to add something to that. But, certainly, these are very transformational things that probably were not part of the conversation during last year because of COVID. But I think they're the most relevant things that we're doing in the market.

Jose "Pepe" Borda: Yes, just adding to that, but the usage of these tools permits us to increase the number of visits and generating cost to serve savings, and at the same time, increasing the number of orders. So at the end, we have more time to deploy and to get our business focused on more value-added activities.

Arturo Gutierrez: So the only additional thing I would mention, Felipe, is this requires significant change management in our operations, because this is something that we're not only doing in the US as you know we're deploying our AC Digital platform in Mexico and the rest of Latin America. And what I would say in that regard is that we require not only the digital technological effort, but also the change management effort with the sales force and that's why we think we're very well positioned to capture the value of that opportunity and the incorporation of that technology into our system.

Felipe Ucros: Fantastic, that's great color. Not sure if I can do a quick follow-up, but I was hoping you could tell us how far you are from pre-pandemic levels of your mix - of your packaging mix in each country, it seems that in some countries you are very close to 100% on the mix, but I'm just not sure how far you are in each country. Thanks.

Arturo Gutierrez: So you're referring to the categories and packages, or to the channels, because obviously in the channel mix is where we've seen the most relevant effects precisely because of the impact on the on-premise channel in all of our markets. So if you look at that and compare the mix, how it's been recovering in all markets, let me talk about the biggest markets; in the US, it was 9% second quarter 2020, it's now 12.5% second quarter 2021. In Mexico, it was 3% and now it's 5.5%. If you compare quarter versus quarter. Doesn't mean that we're back to the pre-pandemic level, there is still some opportunity there. And South America it's pretty much the same story; I think we're a bit far behind, I would say in recovery. So we expect second half of the year to have similar volumes in that particular channel.

If you look at our overall volumes, we already are seeing comparing 2021 with 2019, which is what we're doing, we already have growth in Mexico and in the US and in Argentina and we're going to expect that to happen also in Peru and Ecuador in the second half of the year. Talking about overall volume and comparing it with 2019 as you know, the pre-pandemic baseline.

Felipe Ucros: Great, thanks a lot for the color and congrats, again.

Arturo Gutierrez: Thanks, Felipe.

Operator: Our next question comes from Fernando Olvera of Bank of America.

Fernando Olvera: Hi, good morning everyone and thanks for taking my questions and congratulations on your results and your anniversary. I have two, if I may. First one is related to Mexico - can you give us more color on what's causing margin pressure and how do you expect margins to behave the remaining of the year? And my second question is related to CapEx. So far you have invested around 3.5 billion pesos. So how do you expect CapEx to behave in the second half considering your guidance for the year? Thank you.

Arturo Gutierrez: Thank you, Fernando. Let me address the first part of your question and then Emilio can take the second part. Well, in Mexico, as you've seen has had fantastic margins the last few quarters. We had a combination of many good things starting with recovery in volumes. Although, as you know, 2020 was not as impacted through the COVID crisis or the worst of the crisis as compared with other markets. So we faired fairly well last year, and still we are not growing our volumes in, I would say in every category in Mexico. And we've had still beverages, water, sparkling, and the different channels also showing that recovery. Second, we've had a very good pricing results so far. And this is a combination of a good pricing strategy and of a positive change in mix, and also the good management of promotions. And this is something to just to mention separately because we are also capturing the benefits of our analytics project on trade promotion spend. So this is also having an impact now. The traditional channel - that continues to grow – and it's very important for our profitability. As I said on-premise is showing some improvement although we are not yet reaching pre-pandemic levels, so we have an upside there in terms of mix. Single-serve is also growing and we are not only managing the crisis, which is not really behind us, but we are also doing new things - we're launching new products, we are continuing our rollout of the Universal bottle, which also contributes to our good margins and profitability.

So there are a number of things that we're doing. And at the same time if you see our OpEx management, that's been very, very effective, if you look, especially at our OpEx ratios. And also

Emilio already spoke about that - raw materials - although prices have been on the rise, have not been impacted as significantly, or all impacts have been mitigated by our pricing strategy. So it's been a very good combination.

Going forward, certainly there are some challenges, particularly the increase in some of those raw materials; PET would be, I would say, the most relevant since aluminum in Mexico is not that impactful. And also there is the impact of exchange rate in some of our exports has made a significant, well, a slight variation there, I would say, in our numbers. But in general, margins look really well for the remainder of the year also. So I think even though we're seeing record margins, I'd say that the basic building blocks of our P&L look very good for the rest of the year. I don't know Emilio if you want to elaborate on that and also address the CapEx question?

Emilio Marcos: Yes. I only want to explain a little bit what happened in the second quarter of this year since we see a dilution in margin. This is basically two factors, one is that the exchange rate last year, thanks to our hedging that we had last year, we have a very low exchange rate around MXN19. And this year a little bit more than MXN1 more in exchange rate. So that's impacting the cost of goods on our Mexican operation and that's also impacting our margin.

And the second one is that we are comparing the second quarter of 2020. The margin was 27.3, so it was a really good margin but even if we compare the margin of the second quarter of this year with second quarter of 2019 we can see 140 basis points improvement. So what I'm trying to say is that 26.3 it's a very good margin and the comparison is not helping to see the dilution and what we expect, as Arturo mentioned, is to keep the good trend that we have in improving margin in Mexico as we have done in the first half of the year. So we are still positive on that and continue to expect the positive trend on margins in Mexico.

And talking about the CapEx. Yes, you're right, CapEx stood for MXN2.4 billion in the first half, we are really disciplined on this as we mentioned last year. So primarily we're investing in returnable packaging, coolers, go to market distribution capabilities. What we expect on the second half of the year since we see a good recovery on the topline, we expect to invest around MXN 8 billion. So at the end, will be lower than the budget that we announced, of MXN 11 billion. So we expect to end around MXN 10 billion and that's going to be like 5% to 6% of sales for a total CapEx of 2021.

Fernando Olvera: Great. Thank you so much. Have a great day.

Arturo Gutierrez: Thank you, Fernando.

Operator: Our next question comes from Lucas Ferreira with JP Morgan.

Lucas Ferreira: Good morning, everybody. Thanks for taking my question. My question is, I think, a more qualitative question on the US. So given all the success in the operations there, guys, you're right in touching the 16% margin, it’s not mistaken, that was more or less the margin you guys were expecting to reach; synergies, mostly delivered. But when you look at the operations today and the success you guys have in pricing, that you have some room to improve in the digital fronts, eventually channel mix, also probably the economy also helping. So do you guys think you can go beyond in actually delivering better profitability than you were forecasting probably one or two years ago. Is this something that's doable? And the obvious question is do you guys think you can replicate this success in other territories in maybe a near future?

Arturo Gutierrez: Yeah. Thank you, Lucas. But certainly, I think we so far achieved really a better profitability than we expected particularly this year. And this has mostly been the result of some of our more immediate effect projects at our initial plan and all the synergy projects and all of that was successful and this is the last year when we were just capturing the whole benefit of our synergy plan, and that includes our development capabilities as well.

I think we're very satisfied with how we manage pricing, we're satisfied about productivity throughout our supply chain, and also how we've been developing some of the new categories that are growing in the US market. I think we have certainly opportunities to continue to grow. Basically, as we develop some other categories, as you know sparkling is not the segment that provides most of the growth. We've been seeing our growth from energy with Monster, with Body Armor, with Smart Water, with Topo Chico. I would say those are the main sources of growth so far and there is still quite some room to continue growing there.

Also, if you think about long term, the capabilities that I've mentioned before are things that were not, I would say, fully implemented. The evolution of go to market is kind of a work in progress, our digital initiatives as well. The trade promotion optimization is something that has opportunity, even our supply chain has opportunity as we have been integrating with the rest of the system in new projects. There are also a few things that are challenges and headwinds that we're going to be facing both in the very short term.

I would say the biggest challenge that we face right now is just staffing and availability of labor for very important growth. And I'm sure you've heard this not only from our industry, but from many other industries in the US. This has been a challenge in the second quarter and probably is going to continue for some time. So we are adapting to those circumstances and managing that unexpected situation. As we move forward, obviously cost pressures are going to be more relevant, particularly in 2022, I would say, as aluminum prices go up. So that's why it's important that we are very effective in our pricing, that we also make more progress in our segmentation. I think that's an opportunity that we haven't really completely capitalized because it's not that simple. We have new packages now, as you know, we have this 13.5 ounce and we have to have a more diversified portfolio as we have in other markets to have and achieve this - what we call - this healthy complexity of our price pack architecture, that's certainly an opportunity in the US. There are a number of things that are longer term that we continue to explore. So that's why we remain optimistic. And thinking about how we can apply these capabilities, I think the experience in the US has made us more confident about how these basic processes and building blocks in the Coke system around the world certainly could be applicable and adapted to different markets. So we were successful in Latin America, the US, let's say, different type of challenge a very complicated market - and also a competitive market - and we've been able to succeed so far, so that means that we certainly have the capabilities to apply that as we have the opportunity to integrate other businesses in the future. So if you combine that with our financial capacity, with our good relationship with The Coca-Cola Company, with the commitments that we have here also from our Company Board, I think that presents new opportunities in different markets as well.

Lucas Ferreira: Thank you very much.

Arturo Gutierrez: Thank you, Lucas.

Operator: Our next question comes from Alan Alanis with Santander.

Alan Alanis: Thank you so much for taking my question. Congratulations for the anniversary and for these ESG objectives. My question has to do more with the categories where you can expand, so it's a strategic question. Arturo, Emilio, how much are you seeing that the growth of a particular category in one territory, in this case the United States, is being replicated as a consumer trend in Mexico, and the rest of the territories. For instance, you mentioned the ready-to-drink coffee has been growing a lot in the United States. You mentioned the Coca-Cola with Coffee…how much are you seeing that get into a future trend into Mexico. That's the first question.

The second really quick question is repeat purchases on your Topo Chico Hard Seltzer? I guess the two questions could be connected also as well since hard seltzer is a trend that we're seeing in the United States. But what is your repeat purchase of that imported trend, if you will, from the United States in terms of hard seltzers now that you have all this coverage in Mexico? Thank you.

Arturo Gutierrez: Yeah. Thank you, Alan, good morning, I will turn that second part over to Pepe. But first let me talk in general about trends and this particular time we're seeing every category grow significantly. So that's why, as I said before, we're trying to compare with 2019 or some pre-pandemic baseline to see how we're performing and, still, every category is performing well in our different markets. But we certainly see that trend that you mentioned that is more noticeable in the US where some of these even subsegments, or subcategories of certain beverages are growing, like in the case of sports beverages and then you have Body Armor like a subcategory within that group, and that's providing significant growth.

The mix of energy in the US is also a trend that is much more developed in that market, and enhanced waters, a number of other things. I would say that this is kind of a window for what will happen in other markets, certainly. But it's a gradual evolution. It's not something that occurs overnight or in a single year. It's just a slow trend that we're going to be capturing as we also build stronger capabilities for how we approach the market to be more active in promoting and selling those categories rather than just providing service, which was kind of more of our DNA in the past. So I think what's happened in Mexico, for example, with sports drinks, with Powerade is a good example in the last maybe 15 years and how that category has been truly developed based on the trends that existed previously in developed markets like the US. I think that's going to continue. And the other good example of that is particularly Topo Chico Hard Seltzer which, this is a category that is attracting consumers that are looking for the same things - a refreshing, lighter alternative to other alcoholic beverages and we've reached significant coverage, but it's still truly a category that will develop differently than in the US, I would say it's not as explosive. But we want to be one of the leading brands and it's going to be just part of this development of the flavored alcoholic beverages in our market. So I don't know if Pepe you want to elaborate on Topo Chico Hard Seltzer, please?

Jose "Pepe" Borda: Yes, I think with Topo Chico and the whole portfolio in general, we still see growth coming from Coca-Cola segment. I think that this launch of Coca-Cola No Sugar new formula, we expect a boost also in colas from that. We are seeing recovery – important recovery in flavors and as Arturo said in many of the still beverages categories we see very, very high growth in many of our markets. So there is still a lot of runway to grow in the existing categories and in the new categories, as Arturo said, of the coffee category in the US is very ripe for us to grow, it's in a very initial development in the ready-to-drink, but we are starting to work with Costa there to capture that growth of Coca-Cola Coffee in Mexico. And specifically in terms of Topo Chico Hard Seltzer, as Arturo said it's still a very small category in Mexico, and as we've said before, we strive to be in the top two players in Mexico to be ready to be there with this and when this category really explodes we already have launched in six major cities in Mexico, we have over 65% coverage in the territories where we have launched, so there are many of these avenues for growth and Topo Chico is just one of the many opportunities within the flavored alcoholic beverages category and most probably we will have more news in this within the next months.

Arturo Gutierrez: So it's moving in the right direction. But it's a gradual evolution ahead.

Alan Alanis: Got it. That's very clear and we look forward to hear about this other alcoholic product you expect to be rolling out in the next few months or whatever and what is going to be the reaction or the role that Modelo, ABI and Heineken will play on that. Thank you so much (inaudible) and congratulations again.

Arturo Gutierrez: Thank you, Alan.

Operator: Our next question comes from Vidal Lavin with Blackrock.

Vidal Lavin: Good morning and thank you for the call. Could you please comment on the major industry growth trends, particularly on the one hand, I would like to hear your comments about less carbonated soft drinks and higher water consumption, less acquisition activity that we have seen among the (inaudible) despite some companies are increasing cash flow and have stronger balance sheets. What are Arca Continental's trends in this regard?

Arturo Gutierrez: Can you repeat your first question please because we cannot hear well.

Vidal Lavin: Yes. The first one is regarding less carbonated soft drink consumption and higher water consumption. So that major trend that we are seeing in the industry? And the second one is related to Mergers & Acquisitions activity?

Arturo Gutierrez: Yes, sure. Thank you for your question. And good morning. Well, yes, certainly the stills categories have provided significant growth not only now but in the last few years. So if we break that down into the main components, you will see certainly water and sports drinks in Latin America, juices and then you see the growth of energy drinks, mostly in the US. So the stills during the quarter grew 29%, which is significant, but also we're comparing to a very atypical quarter last year. Growth has come mainly in sports drinks and juices in Mexico. In the US it's been mostly Body Armor performance, it's growing more than 50%. In South America, Argentina is growing mainly in juices and with returnable presentations in some of the stills beverages, which are very, very important in that market. In Peru, growth is coming mostly from isotonics and sports drinks. Same thing for Ecuador and juices. The juice category is one that's been not quite developed in some of our South American markets and now we are capturing that opportunity.

Then the water category grew 34% and as we had explained before, there is a higher correlation with mobility in this category. So as restrictions have been partially lifted in some countries, we've seen a solid performance in the category, particularly in Mexico at 31% and South America 82%. So if you look at these categories - water and stills - in the quarter, they grew 34 and close to 30%, respectively. And in every market, we've had growth and even if you compare to the second quarter of last year, the growth has been much higher. We grew water 34% this quarter and second quarter last year we did have a decline - the decline was less than 30%. So, we've increased our volume as compared to 2019. Same thing happens particularly in the largest markets in the US and in Mexico. And if you look at stills in the second quarter last year we did have a decline, but that was about 17% and now we're growing close to 30% and the rest is stills in this market. So this is just kind of the short-term recovery of the category, which has been quite strong. But there is also a longer trend towards growth in stills beverages and Pepe probably you want to expand on that.

Jose "Pepe" Borda: Yes, on top of what Arturo has been saying, we're seeing and we're capturing an important growth of the non-carbonated categories and water is revamping, getting closer to pre-pandemic levels. Looking forward, we are making on value-added water and hydration solutions that are more profitable. As you can see with our launches of flavored water or the focus we are putting on mineral water as with Topo Chico, Smart Water and the different alkaline flavored water, Body Armor Water, Powerade Water. So all these alternative that compete in the hydration arena are going to be things in which we're going to invest a lot more in the future.

Arturo Gutierrez: Let me address the second part of your question about M&A and as you mentioned that we continue to be open to evaluate opportunities. We believe some of those opportunities may arise in this post-pandemic scenario. As always, we're going to be very prudent about what we're going to be pursuing. And we're going to continue to look for transactions in our geographies in the Americas and mostly focused on the beverage space.

So we believe we combined a number of factors that put us in a very good position here, as I mentioned we've developed capabilities to succeed in different markets even the most competitive markets as the US. We maintain a strong balance sheet, as you know. And we've also developed a pipeline of talent to capture those opportunities when they arise and we also maintain a good relationship and an open communication with The Coca-Cola Company about things that we're trying to do and what we are pursuing. And very importantly, we have their commitment and our strategy to pursue those opportunities as a first priority. So that's what I would say that it's been the scenario.

Vidal Lavin: Ok thank you very much for the time.

Arturo Gutierrez: Thank you for the questions.

Operator: Our next question comes from Emiliano Hernandez with GBM.

Emiliano Hernandez: Good morning Arturo and Emilio. Congrats on the results. Most of my questions have already been answered, so just a quick one here. Given the good results in the first half, should we expect an extraordinary dividend, similar to the one you gave last year or is there another priority regarding your capital allocation?

Arturo Gutierrez: Well, yeah as you know our priorities remain pretty consistent with what we've done before and Emilio spoke about CapEx. And that's really a priority. We have reassessed our investment requirements and reinstated some of those investments, CapEx will increase. And in terms of dividends as you know, we declare a dividend, the annual regular dividend and the Shareholders' Meeting has delegated to the Board the possibility of additional dividends and that will depend truly on the opportunities for the use of the capital in different ways that would create value, basically M&A opportunities that we can envision for the future, even opportunities to repurchase some of our stock, that's also been part of the conversation.

Emiliano Hernandez: OK, thank you, Arturo.

Arturo Gutierrez: Thank you, Emiliano,

Operator: Thank you. At this time, I'm showing no further questions. I would now like to turn it back over to Arturo for closing remarks.

Arturo Gutierrez: Thank you, Katie. On behalf of Emilio, Pepe and the IR team, and myself, I'd like to thank you for your interest in Arca Continental and also for your continued trust. So have a great weekend.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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