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Arca Continental 4Q21 Earnings Conference Call Transcript
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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. Thanks for joining the senior management team of Arca Continental this morning to review the results for the fourth quarter and full year 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 you refer to the disclaimer and the conditions surrounding those statements in the earnings release.

And with that, I'm going to go ahead and turn the call over to the CEO, Mr. Arturo Gutierrez, who is going to begin the presentation. So please go ahead, Arturo.

Arturo Gutierrez: Thanks Melanie, and thank you, everyone, for joining our call today.

Let me begin by saying that we are very pleased with our fourth quarter and full year performance.

2021 marked another year of strong top and bottom-line results. Growth was driven equally by volume and pricing as we leveraged our execution capabilities.

Our record of steady revenue and EBITDA growth extended into 4Q21, despite challenges posed by rising Covid-19 cases. Our full year results were also remarkable, considering the impact of the pandemic on both consumer behavior and the broader operating environment.

We continue operating in an environment characterized by global input cost inflation alongside supply chain challenges, as well as labor shortages.

Against this backdrop, we are effectively mitigating these factors through strategic pricing actions and ongoing cost discipline.

Now, let's summarize our performance for the quarter and full year.

Total consolidated volume grew 5.8% in the quarter, reaching 594 million-unit cases. For the full year, total consolidated volume increased 5.8% to 2.3 billion unit-cases.

This annual volume number is one for the record books, as it marks the all-time high volume posted in any year in the history of Arca Continental.

Also, when compared to 2019, total volume was up 1.8%. Remarkably, 4 out of 5 of our beverage operations closed the year ahead of or in line with 2019 volume levels.

The on-premise channel continued its recovery trend across regions; Traditional trade and Large Store channels also sustained their solid growth in 2021.

Total consolidated revenue in the quarter rose 15.2%. We grew revenue by 8.3% in 2021, cycling 4% growth in 2020.

Volume was once again a big contributor to this growth, which demonstrates the fundamental strength and health of our business.

Consolidated EBITDA for the fourth quarter grew 5.7% reaching $9.1 billion pesos.

For the full year, EBITDA reached 35.4 billion pesos, up 10.1%, representing a margin of 19.3%. An important expansion of 30 basis points, despite the pressure from higher raw material prices on a year-on-year basis across all regions and a tougher comparison base.

I would also like to share with you that we continue collaborating with The Coca-Cola Company to build a winning consumer-centric portfolio while exploring new opportunities across our territories.

In line with that strategy and in one of the highlights of the quarter, we started to roll out a pilot program in Ecuador to test the distribution of complementary categories such as beer. These pilot programs will provide us with great consumer insights and new market dynamics learnings, while leveraging our service models and our strong execution at the point of sale.

Also, as you know, we are making great strides with our Yomp platforms to distribute leading consumer brands with a wider portfolio and expand our value proposition for our customers in the traditional channel.

Yomp accelerated the growth pace of our POS platform in Mexico by 55% to reach over 13 thousand active customers in 2021.

We are excited to continue exploring and innovating our service models, capitalizing on the solid customer-centric capabilities that we have developed and refined over the years.

Let me now spend a moment on the results across our markets and operations, beginning with Mexico, where we sustained strong performance throughout the year and achieved record volume readings.

Total volume in the fourth quarter grew 4.5%, driven by growth across all channels, mainly on-premise and supermarkets, while performance in water and stills led the way in terms of categories.

Volume for the full year in Mexico reached 1.28 billion-unit cases, up 3.5% vs 2020 and 1.8% vs 2019, breaking our all-time high-volume record.

Coca-Cola trademark products showed their resilience, closing the year with a 2.8% increase and marking the sixth consecutive year of volume growth. This was coupled with excellent results for Coca-Cola Without Sugar, growing 12.7% compared to the prior year.

These outstanding results were due to the sustained recovery of key channels such as on premise, supermarkets, and entertainment, which were up 31.1%, 17.7% and 191.6%, respectively.

Total net revenues in the Mexico region rose 13.0% in the quarter, marking the twenty-second consecutive quarter of net revenue growth. Total revenues for the full year increased 12.1% to reach $78.6 billion pesos.

Average price per case in Mexico in the quarter - not including jug water - rose 6.5%, reaching $70.98 pesos.

Single-serve mix grew 2.2% in the quarter, as mobility restrictions continued to ease, driving the recovery of the on-premise channel.

EBITDA increased 12.4% to $4.6 billion pesos in the fourth quarter, representing a margin of 22.5%. We were able to partially mitigate the impact of increases in key inputs, particularly sweeteners and PET.

EBITDA for the year increased 14.3% to $19.3 billion pesos, an expansion of 50 basis points, thanks to our revenue management initiatives, our disciplined focus on efficiencies and cost optimization supported by disciplined hedging initiatives.

In 2021, we accelerated the roll out of Costa Coffee across all our territories in Mexico. We are targeting new consumption occasions at-home and at-work.

Turning now to our operations in South America, total volume was up 9.6% in the quarter with our three country operations already above 2019 levels.

Despite the spike in Covid-19 cases due to the appearance of new variants, volume growth in the fourth quarter confirmed the sequential improvement trend.

Volume for the full year grew 14% to 552.7 million-unit cases, resulting from a strong performance across all our markets.

Total revenue rose 14.7% in the quarter and 8.1% for the full year, reaching $35.4 billion pesos. The top-line recovery story continued to unfold across the region, namely in Argentina, Peru, and Ecuador in the fourth quarter.

EBITDA declined 1.8% in the fourth quarter and increased 6.9% for the full year to $6.9 billion pesos, representing a margin of 19.5%.

Our beverage business in Argentina delivered strong sequential 17.2% volume growth in the fourth quarter and 15.8% for the full year 2021.
Volume growth in the quarter cycled strong volume growth from the same quarter in 2020, driven by both sparkling and still categories, up 15.7% and 37.4%, respectively.

Brand Coca-Cola posted a remarkable performance, expanding 16.7%. Growth in Stills was led by Cepita in the Juice & Nectar category, Aquarius, and Hi-C Fresh in flavored water, and Powerade in sports drinks.

We continued investing in returnable bottles across many of our categories in still beverages to provide affordability to consumers while reducing our production cost with the implementation of the “Universal Bottle” refillable format.

From a channel perspective, supermarkets, traditional trade, and wholesale delivered strong growth, as we continued leveraging our revenue management capabilities, which are particularly important in this high-inflation environment.

In Peru, volume was up 10.1% in the quarter. This is a 9.4% growth compared to the fourth quarter in 2019. Total volume for the full year grew a solid 16.1%.

The Sparkling category sustained its strong momentum and once again grew double-digits, up 10.4% in the fourth quarter.

Growth in the Still beverage category accelerated 15% in the fourth quarter, driven primarily by Powerade. We continued driving innovation in sports drinks with new flavors and affordable packages in multi-serve presentations.

For the full year, all channels posted outstanding results. Wholesale and supermarkets lead the recovery, followed by the traditional trade. Notably, the on-premise channel has also accelerated the recovery in the last couple of quarters and is driving increases in the immediate consumption mix. In 2021, single serve mix in Peru increased 3.1 percentage points.

We accelerated the rollout of our AC Digital platform in the traditional trade, reaching more than 58 thousand customers who are consistently placing orders through our mobile app.

Shifting gears to our operation in Ecuador, our beverage business delivered volume growth in the fourth quarter and full year 2021 at 1.1% and 8.3%, respectively.

Annual volume growth was broad-based across the portfolio and driven by solid performances in sparkling with 4.9%, stills 25.7% and water at 18.6%.

We achieved these positive results in Ecuador despite curfews, social-distancing mandates and mobility restrictions that were still in place, as part of the country's effort to contain the rise in Covid-19 cases.

We continued driving immediate consumption occasions to capitalize on the recovery of the on-premise channel, up 19.8% in the quarter and 32.2% for the full year.

Single serve mix also benefited from this recovery, increasing 3.6 percentage points in the fourth quarter.

Returnable packages have shown sustained growth throughout the pandemic and continue to accelerate. The mix of returnable packages increased 1.6 percentage points in the quarter and 3.2 percentage points for the full year.

Importantly, returnables also support our goal to expand household penetration. This channel has experienced rapid growth in major cities, such as Quito and Guayaquil.

Tonicorp, our value-added dairy business posted single-digit sales growth, both for the quarter and for the full year.

We maintained our strong market share in the yogurt, flavored milk, and ice cream categories. Execution at the point of sale and product innovation are the main pillars of our commercial strategy.

Coca-Cola Southwest Beverages in the United States closed the year with steady momentum, posting record topline and bottom-line results and delivering record volume, transactions, revenue, and EBITDA growth.

Our results reflect a balance of profitable volume growth, solid price realization and disciplined operating expense management.

Net revenues for the quarter grew 18.2%, reaching $833 million dollars.
Net price per case rose 13.6%, driven by our sustained strategy of shifting volume mix to high-profit per-case packages, such as immediate consumption Sparkling beverages and Body Armor.

Total revenues for the year increased 12.1% to $3.2 billion dollars. Our solid price-pack strategy and a successful off-cycle price increase executed at the end of the third quarter allowed us to mitigate the impact of rising cost inflation.

Volume for the fourth quarter grew 4%, reaching 110.7 million-unit cases, representing an increase of 0.7% above the same quarter of 2019, outperforming the price elasticity historically associated with higher pricing.

Sparkling Soft Drinks delivered solid gains of 3.5% in the quarter due to increases in 12-ounce cans, transaction packs and immediate consumption SSDs.

Volume shifted substantially to Single-Serve during the quarter, as FSOP outlets continued to recover, and consumers began to resume pre-Covid activities. FSOP for the quarter was up 18.6%, making this the third consecutive quarter with double digit growth since the start of the pandemic.

Total volume for the year was up 3.1% to 444.7 million-unit cases. Large Stores led the growth, together with FSOP, up 5.1% and 11.4%, respectively. Total Transactions rose 5.6% to a record 5.2 billion during 2021.

Growth in the Still beverage category accelerated in 2021, up 7.3%, due to the re-openings of certain small stores and outlets where our products are consumed on-premise.

Growth was driven primarily by Powerade, Minute Maid, and Body Armor. The introduction of the new BodyArmor Edge and BodyArmor Lyte is helping capture additional value share gains in the premium sport drinks category.

EBITDA for the quarter increased 5.9% to $113.8 million dollars, representing a margin of 13.7% and marking the fourteenth consecutive quarter of EBITDA growth. For the full year, EBITDA grew 16.7% to $465.8 million dollars, with a margin of 14.6% and an expansion of 60 basis points.

2021 was a breakthrough year for our digital agenda. We introduced a digital office with a focus on coordinating functional areas across the value chain and formalizing a robust Digital Transformation roadmap while successfully delivering 31 initiatives across the organization.

Highlights include the integration and deployment of a Network Design system to effectively optimize logistics, resulting in significant transportation and production benefits.

Additionally, we made significant progress in our Advanced Analytics roadmap, especially with our Trade Promotion Optimization use case. TPO is a key profitability tool to make the most of our promotional investments while providing insights to our customers. It is powered by sophisticated data models and Machine Learning methodologies.

We also invested in strengthening our e-Commerce platform myCoke.com. At the end of 2021, we reached 62% of our FSOP active customers placing orders through the platform.

And finally, to conclude with the review of our operations, our Food and Snacks businesses posted a double-digit sales growth in the quarter, mainly driven by the recovery of the traditional and modern trade channels in Mexico and Ecuador, coupled with a strong performance of our Deep River Brand in the Food Service channel in the U.S.

With that, I will hand over to Emilio for more details on our financials. Please Emilio.

Emilio Marcos: Thank you, Arturo. Good morning, everyone. Thank you for joining our conference call.

Continuing the positive trend from previous quarters, we delivered another three months of solid financial results including a revenue increase in the high teens. Our strong year-end performance was mostly due to our successful pricing strategy combined with higher-than-expected volume growth.

This was in line with improved macroeconomic conditions and the continued recovery in the Away-from-Home channels across all our regions.

However, we also faced pressure from raw material pricing volatility and had a peak in operating expenses during the fourth quarter that were geared towards providing continuity to our momentum into 2022.

Now moving on to the results:

Consolidated Revenues rose 15.2% during the quarter and 8.3% full year, driven by our market execution which delivered accelerated volume growth from the early onset of the year and from our consistent pricing strategy. On a currency neutral basis, Net Revenue grew 15.4% in the quarter and 12.7% full year.

As for Gross Profit, this increased by 14.7% in the fourth quarter to $22.6 billion pesos. Due to the increase in the cost of key inputs, this represented a 20-basis point reduction in the contribution margin. For the 12-month period, gross profit grew 8.6% to $83.3 billion pesos while the gross margin remained flat thanks to our hedging and pricing strategy.

Operating Income reached $6.3 billion pesos during the quarter, up 5% year-on-year; however, this represents a 120-basis point reduction in margin, mainly explained by the combination of the raw materials effect, SG&A increases from labor constraints in the US, along with the increase in marketing investments to support the top line growth.

For the full year, Operating Income was $25.4 billion pesos, up 18.1% and 110-basis points better than the previous year, primarily from our ongoing optimization of operating expenses, improving our SG&A to sales ratio to 31.4%.

Consolidated EBITDA for the quarter increased 5.7% to $9.1 billion pesos, representing a margin of 18.6%. Our full year EBITDA grew 10.1% and had a 30-basis point expansion, thereby sustaining our positive trend despite the challenging environment in the second half of the year.

Net Income for the fourth quarter was up by 26.5%, for a 60-basis point expansion in net profit margin. For the full year period, Net Income reached $12.3 billion pesos, a 19.5% increase versus the previous year. We continue to improve EPS for a third consecutive year.

Moving on to the balance sheet:

On December 15th, an extraordinary dividend of $1.10 pesos per share was paid to shareholders. The total amount of dividends for 2021 represented a payout ratio of 95% and a total dividend yield of 4.2%.

At the close of 2021, cash and equivalents reached $32.2 billion pesos and total debt was $51 billion pesos, representing a leverage ratio of 0.5 times, putting us in a favorable position to evaluate the most suitable capital allocation options for 2022.

As for CAPEX, $7.2 billion pesos were deployed to reinforce our commercial capabilities. This is in line with the sales and volume acceleration we delivered and supports our go to market service models and production capabilities enhancements.

During the last two years, our ability to adapt and deploy quick countermeasures to the COVID-19 pandemic effects, led us to deliver a strong performance and achieve on average the guidance we announced at our November 2019 Investor Day.

Looking ahead, although the pandemic continues to pose fluctuating trends, we are confident in our people focus, operational capabilities and financial discipline to protect profitability.

To achieve this goal, we must preserve our positive revenue growth momentum, give continuity to the evolution of our commercial models to best serve the changing needs of our customers and consumers, and taking bold actions to offset the volatility in raw materials.

2021 was a strong year, we are confident and well positioned for another year of solid results.

This concludes my review, so back to you, Arturo.

Arturo Gutierrez: Thank you, Emilio.

Looking ahead, we expect continued pockets of volatility related to Covid-19, material cost inflation and supply chain challenges.

And although there is still some degree of uncertainty under the current business climate, we feel more confident about our estimates, and we are ready to provide some color on our 2022 outlook.

We will continue adjusting prices to at least offset inflation rate at each of our operations, always ensuring that our products remain affordable.

As for revenues, we expect an increase around 6 to 8 percent. Of course, we also expect volume growth to be a positive factor.

We expect to continue capitalizing from the recovery of the on-premise channel. This should be supportive of volumes and better mix in 2022.

Volumes should also continue benefitting from the solid demand at home, as many people have not fully returned to the office.

We plan to invest 5 to 6 percent of total sales in CAPEX and continue with the disciplined approach to invest to further enhance our market execution capabilities and to accelerate our digital agenda.

We will keep focused on our consumer-centric strategy and continue building on the momentum of our commercial strength to position ourselves for a strong start in 2022.

We remain optimistic and excited about the future of our business. By continuing to stay close to our customers and consumers, executing our proven strategy and taking the appropriate actions to navigate input cost inflation and supply chain volatility, we are confident that we can deliver a strong performance for years to come.

In conclusion, our solid financial position, and our firm dedication to adapting to the dynamic needs of our customers and consumers, are the platform on which we will continue to develop opportunities for growth.

With that, let's open the line for questions. Please, Katie.

Operator: Thank you, sir. 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. 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.

Thank you. Our first question comes from Ben Theurer with Barclays.

Ben Theurer: Yes, good morning, Arturo, Emilio. Thank you very much for taking the question. So my question is really about the outlook and what you're planning in terms of the pricing strategy, just given that you're obviously going to face more of a headwind in the first half from a input cost perspective and how do you think this growth guidance you just gave with 6% to 8% is actually going to play out through the year and how you think about profitability in that context, particularly in markets like the US where you have the supply chain issues, labor, et cetera, but also South America, where we saw in the last quarter a little bit of a margin contraction. Thank you.

Arturo Gutierrez: Thank you, Ben, and good morning. Well, yes, certainly, we had some challenges in terms of costs going forward. In relation to pricing, as you know, our goal is to capture value adjusting prices at least in line with inflation. And we intend to do that and that requires keeping in mind a balance between market share and profitability and growth.

Some of the positives there is that we have a good carryover of pricing from 2021, particularly in Mexico and the US our biggest markets, that just the carryover in those markets is above 3% of pricing. So that is very relevant as we move into a scenario where we anticipate that we would increase prices above inflation in this year and we expect that margins - yes, there are certainly challenges from the input cost side - our goal is to protect margins throughout the year. And there are several factors that come into play there aside from what you mentioned about top line growth, which we believe it's going to be healthy as the markets recover with the on-premise recovering as well. We expect to have positive volumes across our operations; price strategy, as I mentioned, to be in line or above inflation, and that would be a combination of true rate increases and also a better management of promotional spend.

And for SG&A, the priority will be to keep the good OpEx to sales ratio that we've seen and that we have maintained over the last two years, we will be actively looking for any further efficiencies there. So, the important thing at the end of the day is that we will be growing our EBITDA throughout the year, at least in line with inflation. And that also our return on invested capital continues in this very positive trend throughout the year. So, we'll see that impact that you mentioned, it will not be that significant if we consider our region margin levels, which have been outstanding.

Ben Theurer: Perfect. Thank you very, Arturo.

Arturo Gutierrez: Thank you, Ben.

Operator: Our next question comes from Marcella Recchia with Credit Suisse.

Marcella Recchia: Hi Arturo, Emilio, Pepe, hope all is well. Thanks for taking my question. I have one question for US basically. We know that you started a pilot test for returnable glass bottle in Texas. Right? How have been the preliminary results of that initiative and could we expect the rollout across the entire US operation anytime soon? And my last point is why testing it only now? Thank you.

Arturo Gutierrez: Thank you, Marcella, and good morning. Well, as we've said before, we want to leverage our capabilities in managing returnable operations in Latin America, and that is why we decided to run this pilot test in El Paso. This is still a small test and it's based on the premise that our consumers continue to seek more sustainable packaging, mostly in the US. It's a different strategy to what we usually have in Latin America and you see how returnables have been so relevant in some of our markets for purposes of affordability basically. So, but we have taken the learnings of how to operate that. At the end it requires capabilities to manage effectively a returnable operation. So, we launched a refillable glass bottle pilot in El Paso, Texas and this is still a small pilot. We launched a 500-ml refillable glass bottle last November. And this was for the on-premise foodservice restaurants and quick service restaurants in that city as a single serve package and also we launched a six pack in some of our home market consumers. Again, the scope is fairly small. Just a hundred customers would be the target for the test. It's kind of early for results, but we start to see good traction with repurchase. So we will continue learning and report and based on those results. We will decide if we can further expand that operation. We certainly see that as a trend that we want to explore. So that's where we started with this test in our Texas market.

Marcella Recchia: OK, thank you very much.

Arturo Gutierrez: Thank you, Marcella.

Operator: Our next question comes from Isabella Simonato with Bank of America.

Isabella Simonato: Thank you. Good afternoon, everyone. I have a couple of questions, first of all, of course we are facing a lot of disruptions, right? …in the supply chain, in raw materials continue to go up... I understand from your first response – I believe the idea is to continue to increase prices above inflation and to work on mix, but anything that’s gotten different from a couple of months ago in terms of margins or cost perspective for 2021, for 2022; and could you give us an update on your hedges in FX on raw materials, I think it is great.

And the second question, when you think about the guidance of growth in sales for next year, if you can give a break down how you think about volumes and prices per region, that would also be in line. Thank you so much.

Arturo Gutierrez: Thank you, Isabella. Let me just start with supply chain for a minute and then I'll turn it over to Emilio to talk about hedges and our guidance. Certainly, supply chains have been challenged in the last months and throughout the pandemic. Ours has been operating effectively actually in the last two years and the start of 2022. 2021 we faced no disruption in terms of raw materials. We did have labor shortages, as we all know, in the US and that has affected partially the operation. But in terms of raw materials, despite of having several force majeure notices from suppliers, our operation continued quite effectively. We then increased inventories throughout the year to guarantee the continuity of business. So, we're satisfied with how that's turned out throughout the pandemic, we just, as I said, experienced some issues with availability of purchased products in the US operations. And in 2021 which, again, that would be an opportunity as an upside as we move forward and normalize that part as well. And in terms of hedging Emilio?

Emilio Marcos: Yeah. Thank you. Arturo. Hi, Isabella. Yeah, well, first I would like to mention, as you said that our main raw materials suffered an increase towards the end of 2021. But as we have mentioned, we have a very good hedge strategy for 2021. So, it was crucial to reduce the impact on those increases on the results in the quarter and full year. And talking about specifically the fourth quarter as we expected, we had an increase in prices mainly PET and sweeteners and PET as also we mentioned is the one more affected the most mainly because of the freight costs, especially in Ecuador and Peru. But, even though those pressures in the beginning of 2022, although raw materials should remain - there is a lot of volatility right now, but our cost will remain below the spot or market prices thanks to the hedges that we already have for 2022. I'd like to mention that we're working since freight cost is, it has been increasing. We're working with suppliers to innovate on this regard and save on freight costs. For example, we're in the process of starting a break bulk transportation that is normally used for our commodities, but we're going to use it for resin that is transported in small or medium size vessels where the resin is loaded in big bags. So, there is no need for containers. So overall, the cost is lower. So, as we are working on efficiency, on SG&A, we're also working on how to save on freight costs and raw material.

So, as a summary our hedges in 2022 - we have already hedged 50% of our needs in aluminum and 75% on high fructose in US and in Mexico. And in Peru, we hedged 95% of sugar needs and also diesel in US 27%. All of these hedges are below current market prices. So, we expect our overall raw material costs in 2022 to be lower than the current prices as a combination of the spot prices and the hedges that we have, we expect a let's say a reduction or more stable raw material costs on the second half of 2022.

Arturo Gutierrez: And with respect to your question about growth and guidance, we expect volumes to grow in every market and we've seen very good trends if you consider the fourth quarter of last year and the comparison even with a baseline of 2019 in every market. So there is still some upside there in some of our channels, particularly on-premise. Maybe Pepe you can expand a little bit on that part.

Jose “Pepe” Borda: Yes, thanks Arturo and thank you Isabella for your question. As you know as part of our RGM process, we continuously assess the market to detect opportunities, evaluate price gaps and take decisions to optimize existing SKUs and launch new ones. As an example, we are deploying the 250-ml PET in all our sparkling portfolio in Mexico. The Universal bottle gives us opportunities of new flavors in many territories, the expansion of Coca-Cola No Sugar…all those will act as potential enablers of better volume. And also we will also continue to utilize pricing as one of our key top line drivers, leveraging again our RGM capabilities to segment our brand price pack architecture. As Arturo said we already have a good carryover. We are learning a lot to better manage promotional spending and we will also have the tailwind of the single-serve mix increasing across our operations from the recovery of channels like on-premise, entertainment and restaurants, and categories with higher prices such as isotonics and energy.

In the US we also expect a better mix of bottle cans versus post mix as we continue working on pricing and packaging architectures for different consumption occasions. In South America, we are upgrading our price elasticity tools and trade promotion tools and we will also continue our affordability strategy to offer products for higher elasticity consumers. You know, our brands are strong, competition is following and customers are also benefiting from better economics. Hope that was helpful.

Isabella Simonato: Yes, very. Thank you.

Arturo Gutierrez: Thanks, Isabella.

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

Felipe Ucros: Good morning Arturo, Emilio, Pepe and team. Thanks for the space for questions. I'm just wondering, you mentioned that you were running a pilot for beer, if I heard that correctly it's in Peru. Just wondering if you can give us some details about how long you've been running this, what channels you're running it in and anything else you can give us on that?

Arturo Gutierrez: Yes. So I'll turn it over to Pepe. Just mention first that this is an opportunity that we've mentioned before, as we continue working with Coca-Cola Company and evaluating potential opportunities across Latin America. This is kind of a natural expansion of our business in a way that complements and strengthens our portfolio of products. So, we're in conversations, as we said with The Coca-Cola Company to work on our agreements, to have that possibility in the markets and as you know we've been distributing beer in Argentina for a long time, very successfully. And actually it's been a growing business throughout the pandemic. So, that's why we explored this opportunity in all of our Latin American markets, and this is the starting point in Ecuador, through this pilot. So maybe Pepe, you want to expand that?

Jose "Pepe" Borda: Yes, thanks Arturo. So, as Arturo said, it's beyond Argentina we're starting this in Ecuador; and in Mexico and Peru also beyond our product distribution - other product distribution opportunities under evaluation, we also plan to expand our footprint in FAB's beyond Topo Chico and Hard Seltzer. But, also talking about distribution of other products in Mexico, Yomp! continues to expand in Monterrey and Guadalajara, we offer more than 1,000 SKUs from 30 CPGs and we are expanding our value proposition for customers in the traditional trade with an extended portfolio offer of products and services. We are also working for ways to create CPG alliances and consolidating synergies across our business portfolios.

Arturo Gutierrez: So, at the end, Felipe. We believe that the opportunity on alcoholic is either flavor alcoholic beverages or beer is a very real opportunity for us going forward. This is a pilot that's still not a definitive venture in that country, but we want to have some learnings to see how we can create value and where the main levers are for value in those markets. So, we'll be updating you on those key initiatives.

Felipe Ucros: Thanks very much for the color, guys. And just wondering also, if you could give us an update on Yomp!.

Arturo Gutierrez: Yes. Well, yes, as you know we've continued expanding this business. This business has two basic units: one would be called Yomp! Premium, which has now close to 14,000 customers connected. And this is our basic platform. We also have what we call Yomp! Express, which is the delivery of products to the store. So we've been branching out into a number of initiatives within that initial idea. So now we have mobile apps. So customers can download and start transacting right away. So this is what we call Yomp! Mobile and we have 2,500 active users. And so our customers are performing better with time. I think that's the highlight there that profitability is much better. Now we have a number of transactions that with a healthy increase, payment of utilities, the typical things that you would have in the platform and that's becoming profitable for the customer. And now we've achieved positive unit economics for that segment, which I think is really important and that is a platform for the growth. We're going to be growing aggressively Yomp! this year, particularly in this segment of the business - the B2B platform. And I think it's the biggest opportunity.

Also mention that we are working on analytics of the information that we're collecting. Now with 40,000 customers, we truly have big data of the market and the data of the set up of the store is something that we've never had before. I think that's something that is not available for actually anyone. So we are working on the analytics of that information, releasing use cases and delivering of market share reports to our operation and actually there has been interest of third-party CPGs on that information as well. So this is an example of how this branches out into a number of opportunities based on the network effect of the plan. Pepe, do you want to expand?

Jose "Pepe" Borda: Yes. And it's important to say that until now we have been working in two somewhat different approaches. One side, improving our core beverage businesses - business with better B2B tools, for example AC Digital that is now in close to 400,000 of our customers. And as we talked about Ecuador and evaluating and looking for partnerships with other beverage companies. On the other hand, we've been working with Yomp! in a slightly independent way up to now. Looking forward, we have started to pilot synergies between these platforms and assess customer satisfaction, total portfolio growth and cost to serve optimization. So in the future we're going to see how can we leverage the synergies between these two platform.

Felipe Ucros: That's very useful. Thanks a lot.

Operator: Our next question comes from Alvaro Garcia with BTG Pactual.

Alvaro Garcia: Hey, good morning gentlemen. Thanks for the call. I have one question twice, two questions really. The first one on OpEx on operating expenses. I think Emilio mentioned that it's a peak in operating expenses in the fourth quarter, where is that investment heading. I mean it kind of ties into my second question, which is an outlook on the consumer in the US, how do you feel the US consumer might sort of track down to more affordable presentations in the second half of 2022 and to what degree do you think that might be a headwind on the volume front? Thank you.

Arturo Gutierrez: Thank you, Alvaro. Let me talk about the US first and then I'll turn it over to Emilio. We've seen a very good consumer environment in our US market, actually. We closed the year with very good moment - this was actually our, as you know, in profitability, we continue to grow EBITDA and volumes are starting to recover to the pre-pandemic level. If, you look at the market, large store and convenience small store segment had been growing consistently. We are very resilient. It's the on-premise market that's been mostly affected in the US. And we expect that to recover in 2022. Just looking at the, just the number of customers of outlets that we serve in the US as compared to the baseline of 2019. There is a tremendous opportunity there and we are seeing that trend in the last quarter. So, we expect that to continue to recover. So, the market we are seeing that in a very favorable trend. We also are seeing the opportunity in many of the stills categories, BodyArmor, Monster, brands that are growing faster, Topo Chico, so we're optimistic about the US market, especially as I said recovers on the on-premise market. And with respect to OpEx, Emilio can you please?

Emilio Marcos: Sure. Hello, Felipe. Yeah, well, as you see the OpEx in the quarter was the main factor to dilute EBITDA margins. This was a strategic, I would say one time surge to maintain the top-line momentum that we had in the quarter and recorded some lag expenses in the market that we had during the year. We should remember that as of September, the SG&A increase was a little bit less and 1%. So we had a lag there and full year, we ended with 5.7% increase. So with that, we improve our ratio of OpEx over sales to 31.4% from 22.2%. So the operations that most contributed to this expense or increased were US and South America, basically in marketing and freight expenses, as I mentioned earlier and that increase was during the fourth quarter of last year. And again, as I said, these are extraordinary expenses that I should say that most of them are under our control and going forward, we expect to keep the SG&A increase aligned with our top line to maintain a healthy ratio of OpEx to sales as we did last year.

Alvaro Garcia: Great. Thank you very much. I appreciate it.

Arturo Gutierrez: Thanks, Alvaro.

Operator: Our next question comes from Sergio Matsumoto with Citigroup.

Sergio Matsumoto: Yes, hi good morning, Arturo and Emilio. Thanks for taking my question. Just wanted to go back to the Yomp! and other digital initiatives that you mentioned. I'm wondering in the context of your guidance for 2022, if they can be a source of SG&A savings, in particular if you can use them to perhaps automate the order taking, maybe even enhance topline growth. Arturo, you mentioned some data analytics that might be quite promising. If you could give us some color on that would be great. Thank you.

Arturo Gutierrez: Yes, hi, Sergio, good morning. Well, I believe that digital initiatives, if you focus on this particular Yomp! initiative and digital platforms would be a combination of savings and topline benefits. At the end what we are exploring is to revise our service models and that is what is going to evolve for the future and we are identifying what's the ideal service models for each of our channels. So if order taking becomes more automatic based on the platform, and this is very promising based on what we've seen not only in Mexico and AC Digital, which is actually the B2B platform with the customers, but also in mycoke.com in the US, it has the benefit of making that more streamlined. Also it increases orders - we've learned that so far, but it will require for us to modify our go-to-market strategy and some might be – might result in savings in cost to serve but also we have to redirect our efforts and face-to-face interactions with customers in a different way. We're looking at that, I would say, primarily at this point, how we can refocus our time in the market to activities to account development to better execution in the marketplace and how that translates into growth but at the same time, as you know, we're also always looking at our cost to serve and making it more efficient. It is very clear to us that once order taking could be automized through the platforms, doesn't mean that we're not going to be visiting the customer, we will have to perform different activities and retrain our frontline into doing a number of different routines in the market, and that's what we are exploring at this point as we adapt our service models to the new circumstance. Pepe?

Jose "Pepe" Borda: Yes and as Arturo said, we are looking for both - when we deploy AC Digital in the customers that use it for more than 50% of their orders, we are seeing between 1% and 2% of top line growth. And that comes, number one, by dedicating time that was previously dedicated to order taking into execution at the point of sale. Number two, because the customers sometimes take more time to see all the products and to order some things that they didn't order before. But as Arturo said, we will always visit our customers because we think, at the end, this is a human business. Another potential use of that time that we are getting from automating order taking is also the sale of other products and that will dilute all the fixed cost, so that comes along with the pilot that we're talking about selling other beverages. And there are also other different digital activities that are helping us, like suggested order algorithms that are proven to increase also top line growth and what we also mentioned that is one of our key initiatives is the sales promotion optimization through the use of advanced analytics. In Mexico, since 2020, we calculate that we have reduced short-term unproductive promo spend by half. We are just deploying that tool in Peru and Ecuador. We're building another model in the US that will probably the model we use in the future, and we are testing it in both national and local accounts. So, at the end, long story short, it's going to be a mix of top line growth and then potential SG&A savings.

Arturo Gutierrez: Yeah, and second, there'll be other savings from digital initiatives, in manufacturing efficiency and optimizing logistics and network distribution for sure, but we're just focusing on particularly commercial space.

Sergio Matsumoto: Understood. Very exciting and thanks very much.

Arturo Gutierrez: Thank you, Sergio.

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

Emiliano Hernandez: Hi Arturo and Emilio. Thanks for taking my question. Can you provide more color on the strong revenue growth in Argentina. I understand the comparison is very easy but it was very impressive the growth there and should we expect similar revenue levels going forward?

Arturo Gutierrez: Yes. Thank you, Emiliano. Well yeah Argentina has been a very, very strong market. As you see it closed the fourth quarter with more than 70% volume growth, and this was way above 2019. So, actually, it's one of our best performing markets. We do have a different baseline for Argentina, because we had better volumes in the past and we're recovering from the situation that's been challenging for a number of years. But it's been a profitable growth as well, and with a balanced price architecture, which as you know, it's always a challenge. In Argentina we have tremendous opportunities in categories, although volume grew sparkling, but still beverages have great opportunities, grew 66% last year. Water categories... So, we think that this will continue to be one of our growing markets across our operation. Single-serve mix is an opportunity as you know in Argentina, grew almost 2 percentage points throughout the year as on premise gradually recovers, and this was again in the similar situation of a challenging environment of limited mobility and some restrictions. So, we think that our affordability strategy in Argentina has worked really well. The Universal bottle, we've done that for stills beverages. So, we have good expectations going forward. A solid performance we expect in the beginning of this year, and we continue to have our prices, as I said, in line with inflation, which will remain high and maintain very, very good margins even with the headwinds of input costs. We are also deploying our digital platforms in Argentina in the traditional channel, which again it's going to provide opportunities for upside in volume, and also to optimize our cost to serve. So we continue to see Argentina as a very promising and growing market.

Emiliano Hernandez: OK, thank you Arturo and congrats on a great year.

Arturo Gutierrez: Thank you, Emiliano.

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

Alan Alanis: Thank you, and good morning, Emilio and Arturo and Jose. Congratulations on the results. I guess, I mean I'm a bit surprised about the lack of questions in the sense of capital deployment and dividends. I mean you are at 0.5% debt to EBITDA…is it fair to assume that if you don't acquire something that we should be seeing an acceleration of dividends and what's your thinking around it? That would be my first question.

Arturo Gutierrez: Yeah, hi Alan. Well, it's similar to what we've said before. We still explore opportunities for expansion. We are convinced that there is still a lot of value to be captured and consolidation, we all know that. And that our markets around the world are still fairly fragmented. But you know how that works and how those opportunities may arise or not arise at any given moment. So yes, we maintain the same perspective in terms of possible future dividends.

Emilio Marcos: Hello, Alan, how are you? Well, the priority as always, as you know, CapEx, we've been investing a little less than usual - talking about percentage of sales. But for this year, we're expecting to increase that ratio to 5% to 6% since we had some, we received some investments and we were waiting on the evolution of the COVID and the volume, but having the fourth quarter the better volumes in all operations we are determined to restate some investments and increase CapEx, as I've said around 5% to 6%.

And also dividends in the last two years we've been paying a little bit more than 90% payout ratio. We, as I said at the beginning, we did pay two extraordinary dividends this year, one in September and the other one in December. So the payout ratio this year was around 95%. And as Arturo mentioned, M&A is always in the loop and we're always evaluating opportunities on that. Also, we're considering last year we were active with the share buyback fund that we have. So, we have been buying some shares since last year. We are analyzing what's the best option for the company and shareholders to do with that investment.

Alan Alanis: Got it, that's very clear, Emilio and Arturo thank you. I mean so we can assume that the share buybacks might continue as well as a similar payout ratio or dividend.

Now, if I may ask a last question on the operating side, maybe it's not that relevant, but I'll throw it out there, I mean you're guiding - you are giving very clear guidance so thank you. I mean pricing in line with inflation, positive volumes all around and defending margins, which we interpret as stable margins. Is it a contributor of the stable margins the role that artificial sweeteners play on your portfolio? Is it fair to assume that artificial sweeteners tend to be cheaper than high fructose and sugar and obviously (inaudible)? Is that something that plays in your favor or is it too small to even mention?

Arturo Gutierrez: Yeah, we don't expect that to be very relevant in terms of improving our operation this year, Alan. It certainly is a different cost structure, as you say, but we don't expect a change of mix that would be as impactful as someone may think.

So, there are a number of other things that we're doing to build us good margins for the year, we're going to have, as you know this very, very clear headwind from raw materials, especially aluminum and PET I would say that would be the ones that would be impacting. But, we have a number of savings projects in many different areas that we have identified and this would be: Universal bottle that provides savings, our PPO or discount and allowances strategy, strategic procurement and a number of things probably, savings in service, go-to-market models, freight and logistics efficiencies, even BDNL yields…there is a list of things that we have identified. This is part of our routine operation now, I would say. And then if you add all those up, it does become relevant in this effort to protect our margins.

Alan Alanis: Got it. That's very clear. Thank you so much, Arturo and, again, congratulations to everyone on the results.

Arturo Gutierrez: Thank you, Alan.

Operator: Our next question comes from Carlos Laboy with HSBC.

Carlos Laboy: Yes, hello everyone. Arturo, as you look at market development opportunities in the United States, what is your next area of focus here? What's the next low hanging fruit that you see in the United States? And the second question would be, do you see a need or plans over the medium-term horizon for adding a second new plant in Texas?

Arturo Gutierrez: Yeah, hi Carlos. Good morning. Well, in the US, if we talk about commercial priorities and opportunities, I would say there are a number of those. One that it's pretty obvious is what I mentioned about the on-premise recovery. And that would be probably in two ways: one is just the recovery of volumes. If you compare as I was saying the number of customers, we still have about 17% fewer outlets than 2019. So, that is something that has now a much better trend, it's been growing slowly throughout 2021. So we expect that to recover pretty quickly this year. And the second part of that recovery is that the mix of our products in that particular channel is also been much better; at least I would say 2 percentage points more on the side of bottle/cans versus fountain drinks, which is very important. So those are things that are certainly coming back. Aside from the opportunity in categories that continue to develop and are growing faster than some of our core categories as well.

We see also an opportunity in digital in the US - if you look at our mycoke.com operation in the US, we already have 62% of our on-premise customers actively adopting our platform and we expect that to be around maybe 70% throughout this year with those capabilities. And it's not just about connecting it's that we actually have an expansion of 2% in orders through customers that are ordering through mycoke, indicating that this is truly an opportunity. Also the e-retailers in the

US continue to grow and we're capitalizing and in those sales it was up 27% versus previous year. So that's also an opportunity in that space. And Pepe?

Jose "Pepe" Borda: Yes, and then I think on top of the top line generating digital activities Arturo just mentioned, I think one of our big bets is the supply chain optimization project that in partnership with Blue Yonder that is also focused on reducing our costs in an important way.

Arturo Gutierrez: And with respect to that second new plant if you see our operation in Houston, we're very satisfied with those results in terms of achieving the efficiencies that we had in our business case. So, we continue to explore opportunities in the network, both in either building new infrastructure or even capitalizing infrastructure that we have in the border, in the Mexican side of the border as well. So, this is one of the important initiatives going forward, just the network design and investments that are required and how those can bring more efficiency to our supply chain, for sure. But, we don't have a specific plan to announce at this point, but we are certainly working hard on that space as well.

Carlos Laboy: Great, thank you. Congratulations, again.

Arturo Gutierrez: Thank you, Carlos.

Operator: Our next question comes from Ulyses Argote with JP Morgan.

Ulises Argote: Hi, thanks and apologies, I think there was something up with my line. So, the question that I had was kind of a follow-up on pricing in the US and thanks for all the color that you've been giving in the call. It's super helpful. So, Arturo, you spoke there about the carryover effect from the off-cycle increase that you did in the third quarter, but I was wondering, if you can give any color there on how the normal price increase from the start of the year kind of stands out and how this should impact the profitability dynamics through the year then for the US operations? Thank you.

Arturo Gutierrez: Yeah. Thank you. Ulysses. Well, yeah, I said that we had a carry-over in the US and that is around 3% But we do have plans for price increases, so will get us in the US probably closer to 6%, 5.9 possibly, and we have also positive mix trends. That also has the opportunity of improving in our management of promotional spend, as I mentioned. That will also be very important. We are increasing the ROI of our promotional spending and this has been through the tools that we've been implementing mostly in Mexico, but I think those have an opportunity in the US as well - PPO and trade promotion optimization tools as we expand in our geographies. So we expect certainly a better mix of bottle/cans versus post mix as well, as I mentioned before. So, I think pricing would be very positive throughout this year in the US market as in every market, we believe.

Ulises Argote: Okay, perfect. Thanks so much for that and congrats again on the results.

Arturo Gutierrez: Thank you, Ulyses.

Operator: Thank you. At this time, I am showing no further questions. I'll now turn it back over to management for closing remarks.

Arturo Gutierrez: Thank you and thank you all for your time and continued interest in Arca Continental. As always, our entire team is available for any further questions that you may have. Have a great day.

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

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