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Arca Continental 1Q23 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. Ma'am, please go ahead.

Melanie Carpenter: Thank you, operator. Good morning, everyone. Thanks for joining the senior management team of Arca Continental this morning to review the results for the first quarter of 2023. 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; 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 for guidance.

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: Thank you, Melanie and good morning everyone. Thanks for joining us this morning to discuss our results for the first quarter.

Let me begin by saying that I'm pleased to report that we had a positive start to the year. We delivered promising first quarter results, achieving solid top line performance and volume acceleration, while continuing to exercise cost discipline.

Total consolidated volume grew 4.2% to reach 564 million-unit cases. Net revenues grew 10% reaching $50.7 billion pesos. On a currency neutral basis, net revenues rose 17.9%.

Consolidated EBITDA for the quarter grew 12.0% to $9.6 billion pesos, representing a margin of 18.8%. On a currency neutral basis, EBITDA increased 19.6%.

Moving over to the results from our various markets, let me begin with Mexico, where we sustained strong volume performance.

Our unit case volume, not including jug water, grew 5%, reaching 245 million unit-cases, and cycling 3.5% from the same quarter of the previous year. This is the highest volume increase registered in a first quarter period since 2017.

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Volume growth was broad-based across our portfolio, driven by solid performances in sparkling beverages with 4.2% and water at 12.2%.

It's worth noting that the sparkling category represented over 75% of total volume growth, as brand Coca-Cola maintains its growth momentum, up a healthy 4.9%.

Growth was mainly driven by new affordable package options and on-going flavor innovations.

Furthermore, all channels grew during the quarter, led by modern trade with double-digit growth, due to the expansion of SSD dual packs in supermarkets.

The on-premise channel also continued with its positive trend, growing by 11.2%. Nonetheless, we are confident that there is upside potential in the Leisure and At-Work segments, which haven´t fully recovered to pre-pandemic levels.

Total net sales in Mexico rose 18.4% in the quarter, reaching $21.7 billion pesos, marking the twenty-seventh consecutive quarter of net revenue growth. The average price per case in Mexico in the quarter, excluding jug water, rose 10.9%, reaching $80.83 pesos.

EBITDA increased 18.9% to $4.7 billion pesos in the quarter, representing a margin of 21.8%. This marks the seventeenth consecutive quarter of EBITDA growth and continues to demonstrate the strength of our beverage business in our flagship market.

We're also making significant progress with our AC Digital B2B commercial platform, which has reached over 78% of our traditional trade customers. At the end of this quarter, over 40% of our volume was captured through this platform.

Additionally, this quarter we launched Jack Daniels and Coke, as part of the plan to capture a share of the Alcoholic Ready-To-Drink market. This pre-mixed cocktail brings together two iconic brands and joins our small but growing portfolio of flavored alcohol beverages, including Topo Chico Hard Seltzer and Lemon-Dou.

Let's shift our focus to South America, where our beverage business continued its upward momentum resulting from a strong performance across all our markets.

Total volume was up 6.4% in the first quarter, reaching 165 million unit-cases and cycling strong double-digit volume growth in 2022.

Total revenue was up 2.8%, reaching $10.6 billion pesos while EBITDA for the quarter decreased 3.8% to $2.2 billion pesos, representing a margin of 20.3%.

As for Peru, large portions of the country continued to experience heavy rainfall causing floods and landslides, leading to casualties and damage.

Additionally, major protests and social unrest have hindered regular business activities as demonstrators have intermittently blocked roads and airports in the southern region.

Despite these challenges, our team effectively navigated these complexities and achieved 6.6% sequential volume growth, while cycling 12.5% growth in the first quarter of 2022.

The water category grew a remarkable 22.9%, as we continue with our dual commercial strategy featuring the San Luis and Benedictino brands.

We saw strong growth across all channels. The on-premise channel was one of the best performers in the quarter, up 12.7%, supported by our ongoing investments in market-focused initiatives, expanding cooler coverage. This quarter, we installed more than 3,000 cold-drink units and worked to optimize cooler placement driving incremental volume.

Moreover, at the end of the quarter, over 240 thousand customers in the traditional trade actively placed their orders using our AC Digital mobile app. This represents 54% of the targeted customer base in Peru.

Our beverage business in Ecuador posted a solid 7.5% volume growth in the quarter, driven by remarkable performances in still beverages, water and sparkling categories, up 17.9%, 13.4% and 4.9%, respectively.

Fanta and Inca Kola brands led the outstanding double-digit growth in the flavors segment for the quarter.

Furthermore, Coca-Cola trademark posted outstanding results, up 3.1%, mainly due to the launch of the 1-liter returnable glass presentation.

Single-serve mix in Ecuador increased 2.8 percentage points, in line with the steady sequential recovery of the on-premise and QSR channels, growing double digits and reaching pre-pandemic levels.

Moreover, we reached a significant milestone this quarter, with 37% of our volume in the traditional trade placed through our AC Digital B2B platform.

Tonicorp, our value-added dairy business, posted low single-digit sales growth and double-digit EBITDA growth in the quarter.

Growth was driven by flavored milk, oatmeal, and ice cream categories. Topsy, our ice cream brand, sustained its growth momentum, supported by initiatives to expand freezer coverage and product innovation in the premium segment.

In Argentina, volume in the quarter grew 5% and marks the eleventh consecutive quarter of volume growth, cycling close to 28% volume growth from the same quarter in 2022.

Growth was driven by solid performances with water at 41.2% and still beverages, up 9.1%. These outstanding results confirm the sustained momentum in the face of the severe currency devaluation and high-inflation backdrop.

We continued refining our revenue management capabilities and executing our selective pricing strategy to promote affordability to consumers. From a channel perspective, supermarkets, on-premise, and convenience stores delivered strong growth.

Let's turn now to our beverage operation in the United States.

Coca-Cola Southwest Beverages delivered a strong top-line performance through transaction growth and healthy pricing, coupled with best-in-class execution.

Volume for the quarter declined 0.9% to 100.4 million unit-cases. Although the start of the year was slow, we saw a positive trend month-over-month with March volume growing, as we executed initiatives focused on multi-serve and 12pks.

Volume performance was led by growth in high revenue-per-case packages with immediate consumption up 9%, Monster 8.5% and Smartwater 14.7%. Notably, the Fairlife Core Power brand grew double digits, showing a consistent increase in demand across all channels due to successful promotional activity.

Revenue for the quarter rose 16.8% to $926 million dollars, as we continued improving execution in the right packages and optimizing our promotion spend. This quarter marks the eighth consecutive quarter of double-digit revenue growth.

The average price per case in the quarter grew 17.8%. True rate increased 15.1% mainly due to the off-cycle price increase in 2022 and better management of promotions through our Trade Promotion Optimization tool.

We strengthened our market leadership position as we gained value share in Non-Alcoholic Ready to Drink beverages this quarter, up 0.5 percentage points, driven by the sparkling category.

Small Store and FSOP channels posted growth in the quarter, up 5% and 7.5%, respectively.

EBITDA for the quarter grew an outstanding 22.6% to reach a total of $141 million dollars and marking the seventeenth consecutive quarter of EBITDA growth. EBITDA margin in the quarter stood at 15.2%.

Our cost discipline and hedging strategy continued to pay off, resulting in a gross profit margin expansion and an OPEX to sales ratio improvement of 50 basis points.

It is worth mentioning that this is the most profitable first quarter since taking over the operation in the U.S.

We continued to accelerate the use of our B2B eCommerce platform, myCoke.com, which posted sales increase of 22% in the quarter, as more than 17,000 eligible customers now use our platform.

And to conclude with the review of our operations, our snacks operations in Mexico, Ecuador, and the U.S. started the year with steady momentum, delivering strong operating performance and posting solid top-line and bottom-line results, driven by solid pricing initiatives and enhanced management of discounts and promotions.

Bokados delivered a double-digit sales increase and posted its twenty-second consecutive quarter of revenue growth. The traditional trade was once again the best performer, as we capitalize on our solid execution at the point-of-sale.

Wise Snacks delivered another quarter of solid EBITDA growth, driven by pricing and on-going productivity and cost efficiency programs.

Inalecsa is making great progress to spark consumer-centric innovation with a new line of confectionery products and generating incremental sales, increasing relevance in the traditional trade.

I will now provide an update on our most relevant sustainability activities in the first quarter.

To uphold our commitment to the efficient use of water and preservation of sources, we launched a 2030 water strategy in collaboration with the Coca-Cola System.

The strategy focuses on three areas of action: first, enhancing water circularity within our facilities; second, improving the health of watersheds that are critical to our operations; and third, returning water to nature and communities.

As you may recall, In Mexico last year we collaborated with The Coca-Cola Company, local governments, and the community to address the water scarcity crisis that impacted a significant portion of our communities in Nuevo Leon.

Our efforts spanned from coordinating actions, investing in infrastructure, and donating water to the affected areas, demonstrating our commitment to creating shared value.

In line with our commitment to sustainability, we participated in the 2023 Water Conference organized by the United Nations, where we signed the Business Leaders' Open Call to Accelerate Action on Water. Our goal is to promote collective action for water stewardship.

We are also working with The Coca-Cola Company towards creating a World Without Waste.

We are increasing our collection rates and investing in consumer recycling culture.
For instance, in Argentina, we launched the "My Waste-Free Festival" initiative to reduce waste generation, promote proper material separation, and promote recycling at public events.

Our unwavering commitment to creating shared value is reflected in our sustainable business model, which we embed in all aspects of our operations.

We firmly believe that this approach will lead to long-term success and benefit all our stakeholders.

I will now turn the call to Emilio to go over our financial results.

Emilio Marcos: Thank you Arturo. Good morning, everyone, it´s a pleasure to be with you today to review our first quarter performance.

During the first quarter of 2023, we sustained our positive momentum, achieving double-digit growth in both Revenue and EBITDA.

This is notable considering the prevailing macroeconomic environment. Our volume performance, effective pricing strategy, and commitment to operational and financial discipline, coupled with the dedication and hard work of our associates, have been the key drivers of these solid results.

Let me offer further insight into our financial results:

In the first quarter, Consolidated Revenues increased 10% and 17.9% on a currency-neutral basis. We faced FX headwinds due to the strong performance of the Mexican Peso.

These positive results were driven by the effective implementation of our selective pricing initiatives and solid volume performance across the operations. Our price/pack architecture enabled us to maximize revenues while protecting product affordability.

During the quarter, the cost of goods sold increased 8.5%. While some of our key inputs experienced volatility, in relation to 2022 the more stable raw materials environment contributed to a 20-basis points expansion in contribution margin.

SG&A expenses increased 9.7% reaching $15.9 billion pesos. Despite facing inflationary pressure and a challenging labor environment, our commitment to operational discipline and constant pursuit of efficiencies resulted in a 10-basis point reduction in the SG&A to Sales ratio.

Consolidated EBITDA reached $9.5 billion pesos in the quarter, increasing 12% and 19.6% on a currency neutral basis. Furthermore, EBITDA Margin expanded 30-basis points when compared to the same period in 2022.

Net Income rose 20.6%, reaching $3.7 billion pesos with a margin of 7.4%, an expansion of 70-basis points. The main drivers behind this expansion were a solid top line, more stable key input prices and SG&A efficiencies.

Now, moving onto the balance sheet:

A dividend of $3.5 pesos per share was distributed on April 17th, 2023, which represents a payout ratio close to 39% of retained earnings and a dividend yield of 2.2%.

As of March, cash and equivalents totaled $59.5 billion pesos, while total debt was $45.5 billion pesos, resulting in a net debt to EBITDA ratio of 0.4x times. At the same time the operating cash flow reached $5.7 billion pesos.

Our financial discipline provides a strong foundation to face the challenging economic landscape.

We remain confident that despite the ongoing uncertainty of the global economic climate, our disciplined OPEX and CAPEX execution, diverse geographic footprint, and strong relationship with our customers, will continue to enable us in sustaining overall profitability and generating value for our shareholders.

That concludes my review. And now, I'll turn it back to Arturo. Please, Arturo.

Arturo Gutierrez: Thank you, Emilio. So, while we expect the consumer dynamics to be challenging throughout this year, we are encouraged by our performance across our markets.

Our sustainable business model prioritizes profitable growth, operational excellence, environmental protection, and community development, all within a framework of ethics, transparency, and responsibility.

We are confident that we have a clear roadmap for growth, innovation, productivity, and investment, which are driving efficiencies and improving execution.

We are also encouraged by the prospects of the nearshoring trend in our territories. As you are aware, Mexico has become a particularly attractive destination for nearshoring due to its proximity to the United States and Canada, as well as its competitive labor costs, skilled workforce, and modern infrastructure.

Such developments are very promising for our business. As of today, more than 80% of these expected investments will be located in states where Arca Continental has presence. We aim to capitalize on this momentum by strengthening our end-to-end supply chain to meet the heightened demand in our markets.

In parallel we will remain focused on the effective management of pricing and promotional spend, leveraging segmentation, analytics, customer, and consumer insights, and taking timely hedging actions.

Looking towards the remainder of the year, there is a lot of activity ahead. We will continue strengthening the relationship we have with our customers who continue to share in our success, while doubling down on our digital transformation agenda and our sustainability initiatives.

We also remain committed to our strategy of exploring new revenue streams by becoming a more relevant partner to our customers, while aiming to increase our share of wallet with a broader portfolio. Notably, this quarter we launched a new beer distribution pilot in Peru.

With that said, we are off to a solid start in 2023 and I'm confident we are on track to deliver against our full year targets and with the guidance we laid out at the beginning of the year.

Thank you for your support and confidence. Operator, please open the call for questions.

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 Benjamin Theurer with Barclays.

Benjamin M. Theurer: Good morning, Arturo, Emilio and Pepe. Congrats on the very strong results. So let me try to get this into one question. Given your commentary around the challenging conditions from a macroeconomic point of view, but at the same time, you just delivered, even on a reported basis, double-digit sales growth, even higher EBITDA growth, you're increasing your investments, your leverage is low. So, help us understand what is it -- where you see potential downside risks, given the strong start you have to the year and where do you think things can go wrong, just given the multiple callouts of the macroeconomic conditions you just made during the call? Thank you.

Arturo Gutierrez: Thank you, Ben, for your question. Good morning. And certainly, we are very pleased with the results and despite the challenging conditions for different circumstances, we had some weather adversity in the U.S. first month of the year, and then in South America as well, and then as you know we had volatility in mostly our Peru and Ecuador market most of the first quarter. So, I think what that demonstrates -- and that continues to be a risk going forward, and we know that we may continue to face some disruptions and some external factors that could also affect and impact our business, as you know, inflation has been our biggest concern - but I think what this would demonstrate is that our business is very resilient, and we can cope with those difficult circumstances.

Maybe growth would not be as spectacular when we have this adversity, but certainly we can deal with it. And then not only the first quarter of this year, if you look back the last three years, I think we've faced much more external adversity than we've seen in normal times, if we can call normal times to any particular year. But I think on the other hand, when we have some tailwinds, we can capture that and have extraordinary growth and that's been demonstrated even in markets where we have high per capita consumption like Mexico. It's not that we have not had adversity in Mexico. But if you look at some of the positives talking about external factors in Mexico and the development in the North Mexico nearshoring of investments, and then you have quite significant growth. So that's I believe the assessment of how we performed. And we continue to have opportunities, we can continue to do better. And you know what happens is many times when we face adversity, you are more focused on those opportunities and those internal indicators, what we call the fundamentals and things that would not depend on the weather or political volatility, but certainly things that we can control. So, we expect the industry to continue growing, and we continue to see high potential volume growth, particularly in emerging categories. So, there are going to be risks all the time and we identify those and we manage and mitigate those eventualities, but we continue to be very optimistic for the rest of the year.

Benjamin M. Theurer: Thank you.

Operator: Thank you. Our next question will come from Fernando Olvera with Bank of America.

Fernando Olvera: Hi. Good morning, everyone, and thanks for taking my questions. Mine is related to the U.S. Can you -- what explains the increase in single-serve presentations, which improved year-over-year and quarter-over-quarter and how do you expect this type of presentations to perform going ahead? Thank you.

Arturo Gutierrez: Thank you, Fernando. I will let Pepe elaborate a bit more on that, but certainly this has been part of the strategy in our U.S. market to move our mix towards more profitable packages. And as we take advantage of the post-pandemic dynamics, that's been an opportunity, and also as we manage our pricing and discounts in the market. So I think it's proven to be a successful strategy. And Pepe can provide some detail on that.

Jose Borda: Yeah. Thanks, Arturo. And thank you, Fernando. As Arturo was saying, this is part – an integral part of our strategy to grow top line. And we think this is working. We're growing value share and that is driven by a very well-balanced price and package strategy, supported by multiple commercial activities, and innovation pipeline within the categories. Single -- in this quarter, single-serve packages grew 6.6% and that was offset by a decline in multi-serve packages. And that's the equation that we balance month after month. But as Arturo was saying, this is part of a strategy to move from volume to transactions and focusing on growth of those more profitable packages.

Arturo Gutierrez: And an example of that might be on our on-premise channel and how we promote. And this is activity at the point-of-sale, not only our pricing and promotion strategy and how we promote the consumption of certain categories in bottle/can presentations that probably were not as relevant in that particular channel, those stores before and this has – this really benefits the customer and the consumer ultimately with having more choices and also helps to have a more balanced portfolio in our case towards the single-serve and increase of transactions.

Fernando Olvera: Great. Thank you so much.

Arturo Gutierrez: Thanks, Fernando.

Operator: Thank you. Our next question will come from Thiago Bortoluci with Goldman Sachs.

Thiago Bortoluci: Yes. Hi. Good morning, Arturo and Emilio. Congrats on the very strong results, and thanks for taking my questions. I'd just like to follow up on the initial conversation on the Q&A on what could go wrong or right. Now if I try to analyze very quickly here what you delivered in the first quarter, in Mexico, volumes have been pretty resilient, margin is up, and arguably your raw material inflation will probably improve going forward, right? So fully acknowledging and recognizing the demand and macro are points that are out of your control. But if you look to whatever you have contracted in terms of hedges and raw material costs going forward, what is the bandwidth on profitability that you might have to support demand in case there is increasing macro volatility going forward? And this is the question. Thank you very much.

Arturo Gutierrez: Yes. Well, if you look at our profitability going forward, and I'll ask Emilio to provide more detail on hedging, I think we're also in a very, very favorable position, because up to now, we had significant cost increases that we have been able to mitigate at least partially through pricing, through supply chain efficiencies, through savings in OpEx. And that has helped us maintain or even improve margins, the margins that were high to begin with from last year. And we've also been benefiting from mix improvement, as Pepe was explaining, in most of our markets.

So 2023 will still be challenging in some of the raw materials, particularly sweeteners - sugar and fructose. But we expect some commodities to start shriveling off during the rest of the year. So particularly for PET and aluminum, we're going to start seeing a better environment. We already saw a better comparison for aluminum in the first quarter of the year. We expect PET to be in a good trend as we compare that with 2022. So, again, that, together with our continued focus on pricing and being competitive on prices, will help us maintain our profitability. Talking about hedges, Emilio will provide some further detail.

Emilio Marcos: Yeah. Thank you, Arturo. Thank you for the question. And as Arturo mentioned, we believe that in 2022, prices reached their peak and as we've seen on this quarter, we have a positive trend in most of our raw materials. We expect to behave in line with inflation. And as Arturo mentioned, the only raw material that we expect with a different trend is sugar. Prices have been pressured, and we think that will continue to be pressured for the following quarters, given that I think the harvest is below expectation in some of the world's largest producers. As you know, we have a vertical integration in Mexico and Argentina, so really the highest impact that we expect on that raw material is in Ecuador.

And regarding hedges, well, we wish to have some hedges in Ecuador, but we haven't been able to do that. So regarding hedges, as we have mentioned, we hedged 75% of aluminum needs in U.S. and Mexico at a lower price than in 2022, and 80% of fructose in Mexico, and sugar 80% also in Peru at a lower price than the current spot prices in those markets. Also, we have hedged 50% of our US dollar needs in Mexico at a lower rate than last year, lower than MXN20. So it's a better comp for that in Mexico. And due to the Mexican appreciation -- Mexican peso appreciation, we have started to hedge some of the needs for 2024 since the exchange rate we feel really comfortable with levels below MXN19. And also in Peru, we have hedged all of our needs for FX around the current spot prices. And we also have started to hedge some of our needs for 2024 at the same levels that -- the current exchange rate levels in Peru. So that's basically what we have on hedges and the trend for raw materials.

Thiago Bortoluci: That's amazing. Thank you very much.

Arturo Gutierrez: Thank you, Thiago.

Operator: Thank you. Our next question will come from Alvaro Garcia with BTG Pactual.

Alvaro Garcia: Hi. Good morning, Arturo, Emilio, Pepe. Congrats on the results. One very quick follow up on sweeteners, if you could just remind us your mix of fructose and sugar in Mexico and the U.S., that would be very helpful. And then my second question for Pepe on volumes in Mexico, I was just wondering if you could drill down a little deeper into what's going on in terms of maybe different cohorts. I mean, the growth has been tremendous, whether it's just general GDP activity or it's specific cooler coverage on your end that's really driving that? Thank you very much.

Arturo Gutierrez: Thank you, Alvaro. With respect to sweeteners mix, as you know in the U.S., we use fructose. And in Mexico, we have a mix that is approximately 50/50, that sometimes that changes over time, but in general, we would say it's a 50/50 mix. In South America, in our operations, we use 100% cane sugar. So with respect to Mexico, certainly, we had a very good quarter and consider that we were cycling a good quarter from 2022. So this is the best result we had in the past five years in terms of comparison in the first quarter. So I'll ask Pepe to elaborate, but what I can anticipate, it's not only the consumer environment, also there are some initiatives that have really been very, very successful and very important for the rolling out of our AC Digital platform, the rolling out of the Universal Bottle, our own analytics project segmentation as suggested order, but I will ask Pepe to elaborate more.

Jose Borda: Yes, thanks, Alvaro, for your question. So as Arturo was saying, growth in Mexico has been very consistent and in all categories, sparkling growing 4.2%. Water had an important contribution, growing 12% through better promotional activities, and better position and branding. The traditional channel has continued strong even after the pandemic, and also the on-premise channel has continued recovering, still below 2019, when we see the whole on-premise channel. But the eating and drinking channel, that is the most important, is already getting to 2019 volumes. But the entertainment channel is the one that is not there yet. So this is not the result of one-time activity. As Arturo was saying, we've been investing in improving our execution capabilities in the last year and we see the impact of better suggested order algorithms, better use of AC Digital in which we have proven that customers using AC Digital have a wider array of products and more frequency. So it's the composition of many small things that we've been working and still there is a lot more we can do in the future. There is also an important investment in affordability and refillable presentations, even as we come from last year. Last year, we had some issues with supply of glass and refillables. So that's also a very important avenue for growth this year as the supply of glass also recovers. So it's a little bit of what we do every day, strong execution both in traditional and modern trade. And the great space that we have for still beverages to grow, still beverages and water categories.

Alvaro Garcia: Wonderful. Thank you very much.

Arturo Gutierrez: Thanks, Alvaro.

Operator: Our next question will come from Luis Willard with GBM.

Luis Willard: Hi, guys. Good morning. Thanks for taking my question. Congrats again on a good quarter. So, I was wondering if I could pick your brains -- I know it's still early, but talking about the alcoholic RTDs within your portfolio, I mean, it seems to me like you're quite excited with the rollout and what you're seeing. So if you can walk us through a bit more on what you're seeing inside in the ground and the potential that you see of this category, going forward, please. Thank you.

Arturo Gutierrez: Thank you, Luis. Well, in general, what I can say is that we continue to see this as an opportunity to leverage our capabilities in some categories that are truly adjacent to the categories that we've been managing over the years. And this is what we're piloting and identifying what else do we need or what are the relevant factors to make these categories grow in our markets. So we've run these pilots with the brands from third parties, but at the same time, we're innovating in categories with The Coca-Cola Company, which I think it's a good way to capture the opportunity. And it's not only the growth that it brings to our portfolio, but also how that continues to reinforce our presence in the traditional trade in Latin America. I think as we increase our presence and our leadership, that also will be benefiting us in other ways and as it relates to our digital platforms as well. I will ask Pepe also to provide some further detail on the different initiatives for alcoholic beverages.

Jose Borda: Thanks, Arturo. And thank you, Luis. And as you said, we are very enthusiastic, but we are aware that this is a long-term game. As Arturo was saying, what we are building here is a complete commercial ecosystem. And what we aim is, number one, to grow our core business; number two, to increase loyalty in the traditional trade, becoming a more relevant partner, and then the possibility of generating new revenue streams and optimization efficiencies. So in this context, we've talked about our two-fold strategy. On one hand, products that are synergistic to -- completely synergistic to our distribution, this is where spirits and beer come from, and we're starting with pilots and then extending. In Ecuador, we are already extending. Our beer partnership is going to cover -- in this quarter, we're going to be covering 30% of the country. We're just starting in Peru. During this quarter, we are going to start a project in Mexico. And with the learnings and the insights that we get, we will further roll out. And a pilot with spirits in Guadalajara, while still small, is starting to show a good result and we're starting to expand. We're starting to crack the code of what works, what doesn't work, streamlining the portfolio. But most importantly, for example, the numbers in Guadalajara showed that we are obtaining positive results in the non-alcoholic ready-to-drink portfolio through cross promotions with our mixes and FAB brands. And this is as we build commercial capabilities to winning the alcoholic beverages' arena. For example, we've been – in Guadalajara, we've been growing more with our FABs, still very small categories, but we command a 27% share already being a strong number one or number two player. So at the end, this multi-category strategy is part of the whole commercial ecosystem that we are trying to build.

Luis Willard: Alright, thank you guys, very interesting.

Arturo Gutierrez: Thank you, Luis.

Operator: We'll take our next question from Lucas Mussi with Morgan Stanley.

Lucas Mussi: Hi. Good morning. Thanks for taking my question. I wanted to explore a little bit more the top-line dynamics that you guys are seeing in the U.S. You said that March was already a positive month. So I just wanted to understand if you're seeing demand improving, at least on the margin, or if there was something specific in March? And also what are your expectations for the rest of the year, given your current commercial strategy? Also, I just wanted to know how you think about pricing, if the idea is still to do one price increase in the second half of the year or if there is a chance that we could see no additional pricing this year as you guys already have a lot of price carry-through and mix is improving? Thank you.

Arturo Gutierrez: Yeah, thank you, Lucas. In the U.S., as you saw, volume declined in the quarter, we were cycling growth in the first quarter of last year. But as I said in March, that's a positive trend growing close to 1%. And January and February were certainly impacted by weather conditions. So as Pepe explained, most importantly, our volume mix was improved favorably with more single-serve presentations and more profitable packages. Also, we had growth in myCoke sales and more customers using the platform, which also is very important for growth and profitability. So if we look at the business going forward and the rest of the year, we're optimistic in terms of margins. The outlook is to maintain or improve 2022 margins through pricing, as you said, we have an important carryover. We're going to be more conservative with pricing for the rest of the year. But we have other opportunities as we have better raw materials environment, and we have some OpEx efficiencies also, some projects that are going to be important for our margin – sustaining or improving margins for the rest of the year. In terms of raw materials, as I explained, PET was expected to increase - I would say pretty much in line with inflation - but aluminum has a better trend for us, decreasing both Midwest premium and LME during the year. So again, our pricing strategy will be more conservative for the rest of the year.

Operator: Thank you. This concludes today's Q&A. I would now like to turn the call back over to management for closing remarks.

Arturo Gutierrez: Well, thank you all for your continued interest in our company. Please contact our Investor Relations team for any further questions. Have a great day.

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

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