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Arca Continental 3Q23 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 Ideal Advisors. 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 third 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 many thanks to everyone for being with us today to discuss our results for the third quarter.

Let me begin by saying that we are very pleased with our performance.

Our existing record of steady revenue and earnings growth extended into the third quarter.

Our total consolidated volume grew an exceptional 7.4% this quarter, reaching 665 million-unit cases with our three operating regions delivering sequential and healthy volume expansion.

Net revenues also increased 2.1%, to 56.9 billion pesos, cycling 16.2% growth in the same quarter of last year.

Our revenue management capabilities and flexible price-pack architecture, coupled with our strong pricing power and brand leadership, continued to be key enablers of our revenue growth.

Consolidated EBITDA for the quarter grew 7.8% reaching $11.5 billion pesos. This represents a margin of 20.2%, for an expansion of 100 basis points.

I will now go over the results for each of our markets, beginning with Mexico, where we delivered consecutive record-breaking volume with over 100 million-unit cases every month in the third quarter.

Unit case volume, not including jug water, grew an outstanding 8.7%, cycling 5.4% from the same quarter of last year.

Volume growth was broad-based across our portfolio, which was driven by solid performances in sparkling beverages up 7.3%, water 13.5% and still beverages 17.1%.

The Coca-Cola brand also continued to outperform, with an increase of 8.1%, while our water category grew double digits driven by Topo Chico, which represented 47% of the growth.

We saw positive volume performances across all channels. Traditional trade grew 7% and modern trade rose 14.6% driven by double-digit growth in Convenience stores.

Notably, the on-premise channel continued its positive trend, growing 5.6%, supported by the sustained recovery of our leisure and at-work segments.

Total net sales in Mexico rose 12.2% to reach $28 billion pesos. Remarkably, our beverage business in Mexico achieved its twenty-ninth consecutive quarter of net revenue growth.

Average price per case, - not including jug water - rose 3.6%, reaching $79.78 pesos. This increase was sustained by our strong execution and revenue management capabilities.

EBITDA increased 13.6% to $6.9 billion pesos, representing a margin of 24.8% and marking the nineteenth consecutive quarter of EBITDA growth.

EBITDA margin expansion rose as a result of our effective pricing, combined with our disciplined focus on cost optimization, proactive hedging of raw material costs , and favorable negotiation of key inputs.

We are also continuing the expansion of AC Digital. By the end of the quarter, our traditional trade customer base reached 85%, and orders through this platform represented more than 54% of the volume in this channel.

In South America, our beverage business posted a solid 8.1% volume growth. Our performance in the third quarter remained strong, even as we lapped tougher comparisons of a year ago.

Volume growth was driven by strong performances in Peru and Ecuador, partially offset by a mild decline in Argentina.

Total revenues were down 4.7% in the quarter, reaching 9.8 billion pesos. EBITDA declined 11.9% to 1.7 billion pesos, representing a margin of 16.9%.

Our beverage business in Peru delivered an impressive 12.6% volume growth, cycling a 4.1% growth from the same quarter in 2022. The sparkling category grew 9.3% with Coca-Cola Zero Sugar up 25%, sustaining the positive momentum.

Our water category grew sequentially by a remarkable 23.7%, as we continued with our dual commercial strategy featuring the San Luis and Benedictino brands.

We saw strong growth across channels. The traditional trade was one of the best performers, up 14.2%. This was supported by investments in market initiatives, focused on increasing our share of visible inventory and expanding cooler coverage.

Year to date, our team in Peru has installed more than 10,000 cold-drink units and 12,000 racks.

Furthermore, this quarter we reached a significant milestone: 63% of our volume in the traditional channel was placed through our AC Digital B2B platform.

Moving over to Ecuador, volume was up 9.2%. We experienced strong growth in the still beverage category, which was up 12.5% and the sparkling category up 8.8%.

Coca-Cola Zero Sugar and Sprite led robust growth, supported by the launch of the 1-liter glass refillable package.

From a channel perspective, traditional trade sustained its performance, as we continued promoting returnable packages and driving immediate consumption.

Revenue management and product reformulation initiatives, coupled with our focus on cost discipline and optimization, enabled us to protect profitability amid the challenging consumer environment in Ecuador.

Tonicorp, our value-added dairy business, posted mid-single digit EBITDA growth this quarter. Growth was driven by the white milk, oatmeal, and ice cream categories, as we sustained market share in our core portfolio.

In Argentina, volumes in the quarter were down 1.2%, following a strong 9.7% growth in the same quarter of last year.

Unfortunately, severe currency devaluation, rampant inflation and high interest rates continued to negatively impact consumer spending.

Nonetheless, we have achieved volume growth for three years in a row by focusing on those things we can control.

We maintained pricing in line with inflation, while actively promoting immediate consumption and driving affordability with returnable bottle initiatives.

Notably, single serve mix increased by 4.7 percentage points. These results are consistent with the recovery of the on-premise channel across the region.

Our beverage operation in the United States maintained its steady momentum and delivered another quarter of solid top and bottom-line performance with its nineteenth consecutive quarter of EBITDA growth.

Volume for the quarter increased 4% to 121 million-unit cases. Last August, we delivered a record-breaking month in terms of volume and transactions, driven by our pricing strategy and strong point-of-sale execution.

The water category posted 21.4% growth in the third quarter as we drove consumers towards our premium water brands such as Smartwater, Topo Chico, and Vitaminwater.

All three of our channels grew in the quarter, with Small Stores and FSOP leading with 9.1% and 5.1%, respectively. Large Stores grew 1.3%,.

Notably, the sparkling category in the FSOP channel grew 9.4%, led by Immediate Consumption packages, up 7.5%, followed by 12oz Cans at 1.6%.

Channel dynamics favored immediate consumption packages which grew in mix by 0.4%. This effect supported a record-breaking month in transactions, up 8%.

Volume performance was led by high revenue-per-case packages with immediate consumption up 5.1%, Monster 5.8% and Smartwater 6.4%.

Net revenue for the quarter rose 12.7% to $1.1 billion dollars, marking the tenth consecutive quarter of double-digit revenue growth. This was mainly driven by strong pricing, promotions, and strong execution of our most valuable packages.

Average price per case grew 8.4% with true rate up 8.3%, as we finished cycling last year's price increase.

We continued making progress in the RGM space, powered by our Advanced Analytics roadmap, specifically our Trade Promotion Optimization tool and sophisticated data models to make the most of our promotional spend. This underscores the pivotal role that data-driven decision-making plays in shaping the future of our company.

EBITDA increased 27.7% to $164 million dollars, while EBITDA margin for the quarter finished at 15.4%. Importantly, this is the highest EBITDA margin for a third quarter in any year since we acquired this operation.

This quarter, we launched Bodyarmor Flash IV, our newest brand in the rapid-hydration segment, and Coca-Cola Creations Year 3000. We also started delivering 13 SKUs of the BANG energy drink portfolio.

I will now conclude our operations review with our Food and Snacks businesses.

Bokados in Mexico posted sequential single-digit sales increases, driven by the traditional channel, segmented pricing, and enhanced management of discounts.

Wise Snacks in the U.S. posted sequential EBITDA growth, driven by pricing, on-going productivity and cost optimization initiatives, including SKU rationalization, streamlining our supply chain to optimize freight costs and reduce product waste.

And lastly, Inalecsa posted flat sales and double-digit EBITDA increases this quarter, as we continued to reshape our portfolio to further increase our focus on product innovation and targeting new consumption occasions, supported with an attractive price-value proposition.

I'd like to close with an overview of our ESG initiatives during the quarter.

As part of our on-going commitment to stop global warming and strengthen our Sustainable Business Model, I'm delighted to announce our set targets aimed at reducing absolute carbon emissions.

We have pledged to attain a reduction of over 30% in greenhouse gas emissions, in addition to a 15% decrease in indirect emissions from our value chain by 2030.

These targets have undergone comprehensive validation by the Science Based Targets initiative, a collaborative effort involving the UN Global Compact and various international organizations.

When we committed our company to align with the SBT initiative, we did so with the firm belief that our actions can make a positive difference on both people and the environment.

Moreover, this announcement complements our engagement in other significant initiatives, such as World Without Waste and the recent expansion of PetStar.

We hold a strong belief that these endeavors will propel us toward a low-carbon, climate-resilient economy, fostering a future where our business practices and products seamlessly coexist with the environment.

And with that, I will turn the call to Emilio to go over our financial results. Please Emilio.

Emilio Marcos: Thank you, Arturo. Good morning, everyone, it's great to be with you today to review our third quarter performance.

I am pleased to report that after a strong first half, we continued to see solid top-line performance with strong volume, and positive pricing momentum across all our territories.

Revenue growth coupled with key input tailwinds and operating efficiencies generated positive EBITDA performance and margin expansion during the quarter and year-to-date.

Let me now provide you more details on our financial results:

Consolidated Revenues increased 2.1% in the third quarter and 5.5% year-to-date, driven by the positive volume performance and our consistent revenue growth management initiatives. On a currency neutral basis, revenue grew 13.6% in the quarter and 14.9% in the first nine months. As you are aware, the Mexican peso has been appreciating consistently, making it one of the strongest currencies among emerging markets over the last three years.

Gross Profit grew ahead of revenue at 4.4% during the quarter, reaching $26.2 billion pesos, representing a contribution margin expansion of 100-basis points. In the 9-month period, gross profit increased 8.2% to $75 billion pesos, while gross margin expanded by 120-basis points. This improvement was mainly driven by strong volume growth, pricing, tailwinds for most raw materials and our disciplined hedging strategy.

As a result of our continuous improvement and cost optimizations initiatives, we maintain a healthy balance between positive volume performance and the OPEX-to-sales ratio with a 20-basis point benefit in the quarter.

Operating Income totaled $9.3 billion pesos, a 10.8% increase and a 130-basis point margin expansion. For the nine months, Operating Income rose 13.3% to $25.9 billion pesos, while the margin expanded by 110-basis points.

For the quarter, Consolidated EBITDA increased 7.8% to $11.5 billion pesos, with a 100-basis point margin expansion, reaching 20.2%.

In the 9-month period, EBITDA grew 9.2%, while the EBITDA margin expanded by 70-basis points to reach 19.8%. On a currency-neutral basis, EBITDA grew 16.9% in the quarter and 17.2% Year-to-date.

Net Income in the third quarter reached $4.5 billion pesos for an increase of 7.3%, mainly driven by the Operating Income performance. For the nine-months ended in September, net income rose 12.2%, reaching $12.9 billion pesos, while net profit margin expanded by 50-basis points.

Continuing with the balance sheet:

As of September, cash and equivalents reached $27.3 billion pesos, while total debt was $46.3 billion pesos, leading to a leverage ratio of 0.45x times. The operating cash flow totaled $23.2 billion pesos.

Our board approved an extraordinary dividend of $2.22 pesos per share to be paid on November 22nd, reaching a total dividend of $5.72 pesos per share for the year with a dividend yield close to 3.7% and a payout ratio of 63% of retained earnings.

Looking ahead towards the end of the year, our strategic priorities will not change. We will accelerate our digital agenda and continue innovating in our execution at the point of sale to capitalize on the positive consumption trends in our territories.

These capabilities coupled with our revenue growth management strategy, disciplined OPEX and CAPEX execution, will help us sustain our positive momentum.

We remain confident in the sustainability of our performance based on the deployment of our commercial strategies, productivity improvements and capex deployment, which are aligned with the acceleration of our digital transformation and sustainability agenda.

And with that, I will turn it back to Arturo. Please, Arturo.

Arturo Gutierrez: Thank you, Emilio.

Throughout 2023, our business continued to perform well and consistently proved our ability to operate with agility, while maintaining a long-term vision and prioritizing the relationship with customers, consumers, and the community.

An entire year has passed since we signed the collaboration agreement with The Coca-Cola Company. This partnership model reaffirms our unwavering commitment to leading the beverage industry in Latin America.

Under this framework, we will continue innovating and advancing in the market, as we accelerate the multi-category pilots in Ecuador, Peru, and Mexico with the ultimate goal of achieving sustainable growth in our core business.

Furthermore, we are excited about the recent developments in the trend of nearshoring.

As you may be aware, businesses are relocating closer to the United States in order to streamline their supply chains. This has led to a remarkable increase of over 40% in foreign direct investment in Mexico in 2023.

This is evident in the substantial investment announcements totaling $74 billion dollars, which has firmly established Mexico as the premier "bestshoring" hub in Latin America.

Importantly, our franchised territories are precisely located in the regions that will be largely benefitted by these investments and we are well-positioned to capture the potential growth in consumption.

Going forward, our strategy is geared towards increasing prices in tandem with or exceeding the inflation rate, as we carefully balance market share, profitability, and volume expansion.

We will continue to utilize pricing as key top line driver, leveraging RGM capabilities and a segmented brand-price-pack architecture.

We will also leverage analytics and data-driven capabilities to enable faster decision making, optimize routes, and improve execution at the point-of-sale.

We firmly believe that our businesses will continue to perform well in the coming years, as we have made significant investments in our brands, go-to-market systems, manufacturing capacity, supply chain, digital capabilities, and our people.

Thank you for your continued support. Operator, we are ready to open the floor for questions please.

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 Felipe Ucros with Scotia Bank.

Felipe Ucros: Yes. Good morning, Arturo, Emilio, Pepe and team. Thanks for the space for questions. Congrats on another great quarter. Just wondering if you have heard about OFg off the accelerator from the price mix side of the formula, trying to balance their volume and price mix formula a little more. And I'm just wondering how do you think about that price mix formula at Arca and whether you feel comfortable where the price mix is today and that you can continue pushing it forward with inflation or a little bit above, as you just said? Or do you think that Arca is kind of reaching the limits of how far we can push this lever? Thank you.

Arturo Gutierrez: Thank you, Felipe, for your question. Good morning. Well, really our strategy with respect to prices has not changed. There are particular dynamics in each one of our markets but we continue to focus on increasing prices in line or above inflation, as you said, in every business unit and focusing basically on value share and prioritizing profitable packages.

So that's also aligned with our affordability strategy, which is also priority returnable packages and single serve multi serve to maintain this - I would say - healthy complexity of our system where we have a price pack architecture that would balance our profitability and our share.

We're continuously monitoring pricing dynamics in each of the markets to maintain competitiveness. So the situation in the Mexican market, for example, if we've grown prices 4% in the third quarter and close to 8% year to date we are going to be pricing more conservative in the second half of this year and into 2024, but we still aim to be pricing in line with inflation going forward.

We're going to have some carryover for '24 of some price movements of this year in April, October, and maybe something still coming by the end of the year.

Similar to the US, the US also we are seeing growth in prices of more than 8% in the quarter. And same thing, we are focusing on maybe more conservative pricing in the rest of '23 and '24, but with the same aim of being in line with inflation.

Other thing to mention is that we are implementing a new tool for price optimization in Mexico and that will help us reduce the time to analyze price adjustments, increase the frequency of changes, and to capture incremental value.

We are enhancing our capabilities for pricing and also for what we've mentioned before, our trade promotion optimization model that has made us reduce unproductive promo spend in all of our markets in the case of the US, for example, that's a 25% efficiency just based on the deployment of that tool.

Felipe Ucros: That's very clear. Thanks a lot for the color and maybe if I can do a follow up on PET. You guys haven't been super active on hedging PET the last couple of years. And right now there's a little bit of a dichotomy in the market with some analysts on the chemical side thinking there's a little bit of an oversupply in the market, which could put some more pressure on PET. But then on the other side, you also have oil at pretty high prices, which tends to correlate historically. So just wondering how you guys are seeing the PET outlook for next year?

Arturo Gutierrez: Yeah, well, PET in North America, Mexico and the US, we think that would be stable rest of the year. And also in the case of South America, that would be stable pricing and also into 2024, we expect that to be actually a positive as we compare to this year.

Emilio Marcos: And hello, Felipe. This is Emilio. We have no hedges for PET and as Arturo said, we expect the prices to be well in line or maybe above inflation for next year if there's no issues - global issues on oil prices.

Felipe Ucros: Okay, so no views on the opinion that there's an oversupply of PET?

Arturo Gutierrez: No, well, we expect that to be stable -- the prices to be stable going forward, really, they might be increasing a bit below inflation in some cases due to that, but we, we don't expect major movements.

Felipe Ucros: Got it. Thanks a lot for the color and congrats on the results again, guys.

Arturo Gutierrez: Thank you, Felipe.

Operator: And we'll take our next question from Isabella Simonato with Bank of America.

Isabella Simonato: Hi, good morning. Thank you for taking my questions. When we think about the margins going forward and especially taking into consideration what you already mentioned in terms of prices and cost outlook. But when we think about South America specifically and the outlook for Argentina, how are you seeing the dynamics in the next 12 months? And how can we think about the region as a whole for the next year?

And the second question is in terms of the top line, which was quite, quite strong in the quarter, but you mentioned still beverages and bottled water. If you could comment and give a little bit more color on the demand for those categories specifically and what you're expecting going forward? Thank you.

Arturo Gutierrez: Thank you, Isabella. I'll talk about margins in Argentina. I'll turn it over to Pepe for this, for the second part. Well, yes, in general we are pleased with our performance in terms of profitability. As you know, we've had margin expansion and our expectation for the rest of this year is to reach, at least reach our '21 EBITDA margin levels. And we are, I think, in good track to reach that goal at a consolidated level. We've seen some cost increases, but they've been mitigated through pricing and supply chain efficiencies. And we also see, as I said, some commodities cooling down in the second half of the year, particularly PET in some of our regions, aluminum in the US. And that there might be some pressure from sugar and fructose cost increases. So in the case of specifically of Argentina, that's where we are facing the biggest challenges from the hyperinflation environment, the currency depreciation, and, and that has also impacted our, our margins and our trend.

Also, we had the effect of discontinuation of some beer distribution in that market and we are transitioning to other distribution partners in Argentina and so that's also had an impact. But certainly, there's going to be a challenge going forward in that market. So what we are focusing on is the opportunities in improving what we can or what we should control in that market. We think we can still improve our fill rate. We're investing in infrastructure in that market. We are working on affordability through returnables. Obviously, price management is going to be a very important capability to develop in that market. Cost and Opex efficiencies and leveraging the same capabilities that we have in the rest of Latin America because we're deploying our digital platform, our advanced analytics capabilities, and also, again, taking advantage of our infrastructure to distribute other categories. And we are already in conversation with other potential partners for different categories also based on the new long-term agreement that we have with the The Coca-Cola Company.

So certainly it's going to be a market with plenty of challenges. We're confident going forward that we are going to be able to sustain margins, especially the price in line with inflation as well. I'll turn it over to Pepe to make some comments on stills and water categories.

Jose "Pepe" Borda: Yeah, thanks Arturo and thanks Isabella for your question. So the quarter has been very strong in all our categories, but as you mentioned, both still beverages and water had a very positive result.

In Mexico, for example, we grew 17% in still beverages, and that was led by juices, growing 19%, isotonics 24% and tea 21%. Also the introduction of FlashLyte, the brand has contributed with incremental volume.

In Peru, growing 22% led by juices and an upsized strategy in the orange and fruit punch categories. In Ecuador. Also growing the tea category and Powerade. And also in the US growth has been mainly driven by Monster, Core Power and Gold Peak. So we expect to continue having solid positive results in still beverages going forward through our innovations and through our investments that we're doing in the marketing, in execution, and also in all our capabilities.

When we talk about the water category, specifically, the water category has also benefited from the higher temperatures. As you know, water is the most elastic category to temperature, but that's also being held by our dual brand strategy in South America with San Luis and Benedictino and our best execution. And also in the US that's been driven mainly by the Sunny brand, along with a strong performance in all premium water brands, Smart Water growing 6%, Vitamin Water growing 11%, and Topo Chico growing 200% as we recover the production constraints that we've had last year. Also, we expect positive results. We have a very important space to capture with market share in those categories. So we're expecting healthy growth in the near future.

Isabella Simonato: That's clear, thank you.

Arturo Gutierrez: Thank you, Isabella.

Operator: And we'll take our next question from Thiago Bertolucci with Goldman Sachs.

Thiago Bertolucci: Yes. Hi. Good morning, everyone. Arturo, Emilio, thank you very much for the presentation and for taking the questions. Obviously, pricing and margins have been a positive highlight, but I'd like to focus on growth because I think this is where us and the market have been surprised to the upside. Specifically in Mexico, when I look to your core cola portfolio, I see volumes 13% ahead of pre-pandemic, right? What are the drivers for such real growth? Like would you say this is higher per capita consumption? Is it innovation? You're taking a higher share of wallet with your existing clients means there are new clients? What are the drivers and how much more this could be a factor going forward? This is the first one.

And if I may, a second one. Following up on the announcement of our extraordinary dividend, how does it mean around the opportunities for inorganic growth going forward? And maybe more importantly, how should we think about capital allocation and the effective payout you might be willing to pay back to investors going forward? Thank you very much.

Arturo Gutierrez: Thank you, Thiago. I'm going to address the first part on growth in Mexico. I'll turn it over to Emilio to talk about dividends and capital allocation.

Well, certainly we're very pleased with the performance in Mexico. We grew more than 5% of volume this year and almost 9% the quarter, and we were cycling significant increases in '22, as you know, around 5% both in the quarter and year to date last year. And we had more than 100 million unit cases every single month in the quarter. That does include jug water. So what does that mean? We are capitalizing on growth in our market. I mentioned nearshoring of investment, a lot of very dynamic market in Mexico here for investment. We're also capitalizing on some supply chain disruptions from last year that are not impacting or not as much in 2023. And we are investing in the market and in our operations. The traditional investments in coolers and racks and point of sale equipment, but also in warehouses, routes, people, et cetera. That has been key to ensure service to the market and to enable growth. But the point is there's still plenty of headroom to grow in Mexico and this has been the story this year and many years before. So I would think there's opportunity maybe in three basic aspects. We can service demand better. We are, as I said, investing to service our market demand. In the next twelve months we're going to have two new incremental production lines, two new warehouses, more than 280 additional routes coming and we're capturing, as I said, the dynamics in our regions.

The second aspect I will mention is to leverage our evolving capabilities and our strength. We are deploying the digital platform that keeps expanding in its reach and it has been proven to drive incremental volume in each of the customers that adopted. At the same time, we're also evolving into new go to market models that will allow us to invest more time and value-added processes with our customers and also generate incremental volume. And we've only seen a part of that so far.

What we've seen already, the effects quite significantly is of our analytics capabilities, better segmentation, deployment of our suggested order algorithm, our trade promotion optimization as well. We're also improving service models in stills categories, particularly to the modern trade, that has had an important impact. And affordability strategy, expansion of refillables, universal bottles.

And then I would mention a third aspect which hasn't been really reflected yet, but it's the capturing of new opportunities. As you know, we're expanding our ARTD portfolio, distribution of beer and liquor, and that's only pilot tests so far, and also multi category tests that show very positive results in delivering grocery products through our red trucks and that's also generating incremental volume in our core business, which I think is the most important result of those pilots so far. We continue to be excited about the Mexican market, and we have expectations to continue to grow revenue and volume for this year and the years to come.

So I'll turn it over to Emilio to talk about dividends and capital allocation.

Emilio Marcos: Thank you, Arturo.And thank you, Thiago, for your question. Well, as we have mentioned, our priorities on capital allocations have been the same. Number one, capex. As we have mentioned, we've been increasing our capex investment this year, and we expect to increase that next year - our ratio to sales have been higher than the past two years, between 6% to 7%. So that's number one.

The second one is the ordinary dividend, and the third one is M&A / inorganic growth. But without M&A transactions we have been returning value to our investors in the past years through an extraordinary dividend and being more active in our share buyback program. So this year, we just had our board meeting this week, and it's been approved to pay an extraordinary dividend next month, the 22 of November of MXN2.22 pesos per share. So we've been doing that for the past three years. Well, this is the fourth year with extraordinary dividend again without any M&A transaction, but priority is still the same. But again, we've been doing that in the past three years.

Thiago Bertolucci: Great, thank you very much.

Arturo Gutierrez: Thank you, Thiago.

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

Luis Willard: Hi, guys. Good morning. Thanks for the space for questions, and congratulations on yet another strong quarter. So I wanted to go back to one of Arturo's last remarks related to the new collaboration framework with Coca-Cola. So, as you said, you're a year into this new agreement. So my question is first, what has changed in terms of collaboration and the relationship with The Coca-Cola Company versus previous agreements? And perhaps a bit more relevantly, what has surprised you the most, for better or worse, from this new agreement versus what you expected when you signed it? Thank you.

Arturo Gutierrez: Thank you, Luis. Yes, we've made, I think, significant progress in implementing the agreement and improving also and strengthening our partnership with The Coca-Cola Company. I'll probably mention two aspects.

And the first is our traditional business and the way we manage the partnership that we have for 97 years now. I think that has been significantly improved in terms of better alignment. It's a more stable and equitable economic model, a better planning process. And I think probably alignment is the best word to define that new relationship that we have with The Coca-Cola Company.

So what we always said is we're spending much more time in expanding the pie versus figuring out how to divide the pie. And I think that's been great progress at every level - at senior level and also operationally with our teams. But the second aspect, which is something that I think might be even more relevant considering our previous relationship and the constraints we have to expand our business and leverage our infrastructure, is that we're exploring new possibilities for our business.

And I would say first on digital, we have a new partnership and that's allowed us to integrate our, remember our startup Yomp! and the AC digital platform into one integrated B-to-B or B-to-B-to-C digital ecosystem and platform. And that I think brings a lot of value to our system and also brings the possibility of exploring other options like loyalty programs, financial services, advanced analytics of customer data and that ramifies into other initiatives.

And the second aspect is that it also has permitted us to explore new opportunities in multicategory. The analyzing partners for beer, for liquor and as I said, even for grocery. And that has proven to be profitable to strengthen the core business, which I think is most important and also to improve our connection with our customers and our customer intimacy that has been also the essence of what we do.

So in all of those aspects, I would say it's all positives as a result of the agreement. It's not something that we are really surprised about because that was really the expectation when we signed the agreement and to be more integrated and have kind of the best of all worlds in this franchise system. So we're very pleased so far, but we still think that those new things that we're doing, both digital and multi category, we really haven't seen much of the impact yet in our operations because it's mostly pilots and deployment of capabilities and platforms. So I think there's a lot still to see positive things in the future.

Luis Willard: Thank you Arturo. So in a way, having Coca-Cola, being more open to test new things, as you said, multi category distribution, do you see it as a key change in terms of the way they approach the business and the way they see the business and that could make them be more open to try new things in the future?

Arturo Gutierrez: Well, yeah, that certainly has evolved over time. And I think it's not only The Coca-Cola Company. We all had maybe a different paradigm in the past, you know, alcoholic beverages, for example, and how that would complement our core business. So I think the most important lesson, again, in all of these pilots, either groceries, beer, liquor, is that it strengthens the core business. So we are selling more Coca-Cola products in those routes where we are now selling these other categories. So that's a very powerful learning.

Luis Willard: Awesome. Thank you very much for the color.

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

Alvaro Garcia: Good morning, gentlemen. Hope you're well. Congrats on results. Two questions on the US specifically, sort of a short-term and I guess a long-term question. Short-term, how are you thinking about pricing into next year? Do you envision maybe some discounts given how much pricing was done in the market over the last couple of months? And then the second question - last couple of months, last couple of years!

The second question, bigger picture question. I'd love to hear your thoughts, Arturo, on weight loss drugs and GLP1. I know it's very early on, but any early thoughts and how do you think that might impact demand or what strategies the Coke system might take would be greatly appreciated. Thank you.

Arturo Gutierrez: Yes, sure Alvaro. In terms of the pricing in the US, as you've seen, price grew 8.8% in the quarter. Year to date it's even up more than that. And that was driven by some carryover from last year and increase at the beginning of this year. Some benefit and mix. One important thing of our strategy in the US is that we're focusing on more profitable packaging and moving into more single serve, into capturing the recovery of the on-premise channel towards, again profitable packages. If you look to the future, we're still going to do that. We're still going to be focusing on transactions and higher profit packages and single serve mix, which has been growing, by the way, year to date, more than one percentage point. So for the future, we still expect to be in line with inflation, but certainly pricing is going to be more conservative than we've seen in the last couple of years as you have mentioned.

With respect to GLP drugs, we have not seen any impact in our operations so far. One advantage that we have is that we have a wide range of offerings. Being a total beverage company, we obviously include options for consumers to choose with no calories. So that's certainly an advantage, but we will continue to monitor as we move forward. But we haven't seen any effect so far.

Alvaro Garcia: Thank you.

Operator: We'll take our next question from Rodrigo Alcantara with UBS.

Rodrigo Alcantara: Hi, good morning. Good afternoon. Nice to hear from you, Arturo, Emilio, Pepe. My first question would be as well in the US both more on the revenue management side. So we have discussed in the past how you have increased the number of SKUs in the US. You get example in Mexico versus US, where you have in Mexico 60 SKUs of cola, whereas in the US you have half of that. You have tried to change that. So my question would be, let's say that in Mexico from one to ten depend on revenue management. Where would you put the US? For instance, how more could you improve your revenue management in the US in relation to Mexico? That would be my first question.

And the second one would be, just to clarify on the capex, these capacity additions that you mentioned at the beginning of the call, is that already considering in your capex plans, if you can remind us as a percentage of sales, what should we expect for next year would be very helpful. Thank you very much.

Arturo Gutierrez: Yeah. Thank you, Rodrigo. Well, I guess I'll turn it over to Pepe to talk a little bit about revenue management in the US. I'll just say in general that the US market has different dynamics and obviously our price-pack architecture is different, but the basic strategy remains the same, and we're confident that we're going to be implementing that strategy in years to come. In the US recently, we've seen, as I said, significant price improvements. We're maybe not going to see that in the near future in double-digit price increases, but still, we have plenty of opportunity to manage better our portfolio, improve our promotions. Also move more into more profitable packages. For example, in the on premise trade, as this has been recovering after the pandemic, our mix of more profitable packages of bottle can in those outlets has improved quite a lot. So those are the type of efforts and initiatives that we're going to be continuing to implement, and so we're confident going forward.

Jose "Pepe" Borda: And complementing Arturo and to your question, Rodrigo, yes, there's still more space to increase the portfolio options that we manage in the US. And that gives us better and more tools to use our revenue manage capabilities. There's also space to continue lightweighting our bottles and reaching better price points profitably in those options. Arturo also mentioned the analytical tools that we're using for pricing, and those keep increasing and getting better over time. Arturo mentioned that we are much, much better in trade promotion spending, getting more bang for the buck of every dollar that we put.

Also, coordination amongst bottlers in the US is really good in terms of pricing and in terms of how we attend the market. So we feel confident that our revenue management capabilities continue increasing. And with that, we can continue with healthy price management.

Arturo Gutierrez: And with respect to your second point, Rodrigo, yes, that is included in our Capex, in our Capex ratio for the year, which is expected to be around 7%, and that would include infrastructure in our manufacturing supply chain, as well as also digital investments on our year-to-year normal Capex deployment.

Rodrigo Alcantara: That's clear. Congrats on the execution and thank you.

Arturo Gutierrez: Thank you, Rodrigo.

Operator: Our next question will come from Rahi Parikh with Barclays.

Rahi Parikh: Perfect. Thank you so much. I was wondering if we could have more color on South America as the margin went down year over year. So just some color on that. Is it just Argentina driven? Is it like the jug water or what could be explained there?

And also just following on, how do you see labor in each of the regions going? It doesn't seem too impactful, but what do you think going forward? Obviously having an impact in the background. So thank you.

Arturo Gutierrez: Thank you, Rahi. Let me turn it over to Emilio. But I would say that, yes, it's Argentina and South America, that's impacting margins, but I'll let him elaborate.

Emilio Marcos: Yes, thank you, Arturo, thank you for your question. Yes, as Arturo mentioned within South America, I'm glad that you asked that because within South America, Ecuador and Peru are doing well and the only one that is reducing the margin is Argentina. As I mentioned in the last quarter, EBITDA margin that you see in the report is mainly impacted by the adverse effect of the inflation and foreign exchange rate and the restatement on translation of the financial statements to Mexican pesos. That's the number one impact. And of course we have increase in sugar prices and labor, the mix on modern trade has been higher than traditional trade. So that also impacts our margins. And as Arturo mentioned, the discontinuation of beer this quarter is also impacting the margin the third quarter of this year. And as we mentioned, we are looking for - we're transitioning to another categories, multicategories distribution for the next months.

But regarding Ecuador, despite the sugar prices, because we have the highest impact on sugar prices on Ecuador, we've been able to protect margins for the quarter and the year, well, the year being ten basis points higher than last year. So Ecuador is doing well and the best increases are in Peru. Finally, in Peru this quarter, EBITDA margin in Peru was 23.1% with an expansion of 260 basis points. And we also have a margin expansion on the nine months of the year. So we're positive on the performance and the trend and we're confident to protect margins in Peru and Ecuador. And again, the impact is really Argentina.

The good thing is that Argentina EBITDA is less than 5% of the EBITDA consolidated for Arca Continental.

Arturo Gutierrez: And Rahi, with respect to your question on labor, it's our US operation where we've had that as our biggest challenge and priority in the past. This year, we have seen a reduced turnover because we've addressed that, and it's basically in that business unit, and also very focused in certain roles where we've had some issues in staffing, mostly merchandisers, order builders, truck drivers. But this year, that's much improved. As I said, we've implemented a number of initiatives, and we've reduced turnover, so we're stabilized in that regard.

Rahi Parikh: Perfect. Thanks so much.

Arturo Gutierrez: Thank you, Rahi.

Operator: And we'll take our last question from Leonardo Malhado with Evercore ISI.

Leonardo Malhado: Hi. Thanks so much for the question. So I noticed last quarter you noted changing consumer dynamics in the US. With a little bit of channel shifting. So I was just wondering if you've seen further deterioration of the consumer environment or just any differences there. And a quick follow up, if I could, would just be a quick update on Jack and Coke in the US. I don't think it got mentioned a lot on this call. Obviously, it was a big point of attention earlier in the year. So just a quick update on that and how it's performing maybe in the US versus Mexico would be great. Thanks.

Arturo Gutierrez: Yeah. Thank you. Leonardo. Well, the US consumer dynamics have actually improved. If you remember, in our previous call we were saying that although the volume had declined, we were seeing a better trend. And the last month of the previous quarter, the month of June, we had seen some growth. So that growth continued into the third quarter, where we actually had a record month in volume in the month of August. So we're satisfied with performance during the summer. And I can ask Pepe to talk about the channel evolution, but every major channel is growing, on-premise, small stores, large stores.

Jose "Pepe" Borda: Complementing Arturo is all our channels have been growing - large stores grew 1.3%, small stores, 9%, and the food service on Is channels grew 5%. So we continue to see strong demand fueled by brand loyal customers and the small stores positive momentum through our immediate consumption. So we are not seeing that contraction, especially in the US.

And regarding Jack and Coke in the US we do not sell alcoholic products. Those are sold directly by The Coca-Cola Company through independent alcohol distributors. But we do in Mexico, and that is complementing our ARTD portfolio. It's still small, but it's growing. We're doubling that every year. And it's a great complement to all our mixers non-alcoholic portfolio. And together with spirits and beer that we're selling, that gives us the critical mass to cater to more customers and to be more relevant in that category. So we're having very good results with Jack and Coke, with Topo Chico Hard Seltzer, Topo Chico Mixers and just launched a few months ago Lemon Dou, an interesting new proposal from a Japanese beverage and we have an interesting pipeline in the near future in those categories.

Leonardo Malhado: Awesome, thanks. And I guess to clarify, in the US, I was just curious about kind of how the performance in Mexico for Jack and Coke is compared to the US like knowing that you guys don't distribute it. I don't know if you guys have better insights or not on it.

Arturo Gutierrez: Yeah, there's some regulation that actually limits us from distributing it in the US.

Leonardo Malhado: Okay, thank you.

Arturo Gutierrez: Thank you, Leonardo.

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: Thank you, and as always, we appreciate your interest in Arca Continental. And please reach out to our investor relations team for any further questions you may have. And have a great day.

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

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