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CONFERENCE CALL

Arca Continental 4Q19 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 of the fourth quarter and the full year 2019. The earnings release went out this morning. It's available on the Company website as well as the webcast. Please go to 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 Gutiérrez, the CFO, Mr. Emilio Marcos and the Chief Commercial and Digital Officer, Mr. José Pepe Borda, as well as the Investor Relations team. They're going to be making some forward-looking statements, and we just ask that per usual, you refer to the disclaimer and the conditions surrounding those statements in the earnings release. This call is for investors and analysts only. Questions from the media will not be taken. And with that, I'm going to turn the call over to the CEO, Mr. Arturo Gutiérrez, to begin the presentation. So please go ahead, Arturo.

Arturo Gutierrez: Thank you Melanie and good morning everyone. Thanks for joining us this morning.

Let me start by saying that we are very pleased with our fourth quarter and full year results. Our Company closed the year on a high note, delivering strong financial results and a solid operating performance.

2019 presented significant challenges to our industry and to our business. The combination of economic slowdown and social unrest in some of the countries where we operate, created one of the most adverse business environments in recent years.

Nonetheless, once again, the team's commitment and professionalism led us to achieve yet another year of positive financial and operational results.

Total consolidated volume grew 3% in the fourth quarter and nearly 1% for the full year, to reach more than 2.2 billion unit cases.

Consolidated revenues rose 4.9% in the fourth quarter and 4.5% for the full year, reaching record sales of close to Ps. 162.7 billion.

Consolidated EBITDA grew 17.7% for the quarter and 10.7% for the full year, reaching a 19.4% margin in the quarter, up 210 basis points. Full year EBITDA margin was 18.7%, a margin expansion of 110 basis points.

This performance underscores our ability to generate sound financial results even in a challenging environment.

Let me take a few moments to share with you that PetStar, our joint investment with Coca-Cola and other Mexican bottlers obtained the Ibero-American Quality Award in the Gold category, in a special event held last week in Madrid, Spain. This award recognizes the excellence and sustainable management of organizations for quality and innovation across their processes. It is considered the highest honor in Ibero-America for quality.

We are honored and proud for this award and committed to continue to be an international benchmark for best practices in sustainability, proving that PET collection and recycling can generate social, environmental and economic value.

Let me expand on the results across our geographies. I will begin with Mexico, where we continued to demonstrate the resilience of our beverage business.

We maintained the positive momentum, delivering yet another solid quarter of volume growth, up 6.7%. Annual volume grew 2.8%.

We achieved solid growth in the quarter across all categories with sparkling, still beverages and personal water up 4.5%, 8% and 24.7%, respectively.

Total net sales in Mexico rose 11.5% in the quarter to reach Ps. 16.9 billion, marking the eighteenth consecutive quarter of net revenue growth.

Average price per case in Mexico in the quarter - not including jug water -, rose 4.6%, reaching Ps. 62.96, sustained by our segmented revenue management and affordability initiatives.

EBITDA increased 43.6% to Ps. 3.8 billion in the fourth quarter, representing a margin of 22.2%, for an expansion of 50 basis points. EBITDA margin for the year rose by 130 basis points, as a result of our effective pricing combined with our disciplined focus on cost optimization and a more benign commodity market.

We continued capitalizing on successful new product launches throughout the year in Mexico, leveraging digital technology to reinforce our segmented execution capabilities.

In 2020, we will continue expanding our portfolio and strengthening the presence we have in the market, with more than 75 brands in different beverage categories.

Moving now to our beverage business in South America, total volume in the fourth quarter was down 2.9%, due to declining volumes in Argentina and Peru, and volume practically flat in Ecuador. Total volume for South America dropped 2.2% for the full year.

Total revenues declined 2.2% in the quarter and 4.3% for the full year, reaching Ps. 35.7 billion.

On the profitability front, EBITDA declined 4.9% in the quarter and remained essentially flat for the full year to Ps. 7.37 billion, representing a margin of 20.7%, for an expansion of 90 basis points.

Our revenue management, product innovation and reformulation initiatives, coupled with our financial and operating discipline, enabled us to post healthy levels of profitability amid a decelerating consumer environment.

Let's turn to our beverage business in Peru, where total volume in the fourth quarter was down 3.2%, while for the full year, total volume grew 1.3% led by the traditional channel, up 4.2%.

Although we started to see a slight recovery, lingering economic weakness continued impacting general consumption.

We remained focused on cost discipline, optimization and affordability. To this end, we accelerated coverage of the new 2-Liter "Universal Bottle" refillable format, with wide consumer acceptance. Notably, our mix of returnable presentations grew 5.3%.

Moreover, 2019 was a year of digital transformation. We rolled out our new IT platform to nearly 80 percent of our sales force, enhancing point-of-sale execution and increasing overall productivity.

We also implemented the new "Suggested Order" pilot using Advanced Analytics to reduce stock-outs. We are capitalizing on the learnings and experience from this implementation in Mexico.

We are optimistic that growth should pick up in Peru in 2020, on the back of stronger domestic demand. Consumer spending should also benefit from moderate inflation.

In Ecuador, volume in the fourth quarter and full year 2019 was practically flat at 0.4% and 0.2%, respectively, driven by growth in the still beverage segment, up 6.4%.

As you may remember, last October, Ecuador faced major protests and social turmoil, hindering normal business activities.

Despite weakening consumer demand, we were able to maintain value share in NARTD. Stills beverage categories posted value share gains, driven by the sports drinks, teas and juice segments.

We continued to improve our portfolio of affordable and returnable presentations, increasing the mix of returnable packages by 4 percentage points compared to last year.

Tonicorp, our value-added dairy business, posted a mid-single digit sales decline in the quarter and low-single digit decline for the year.

Despite the slowdown in the Ecuadorian economy, Tonicorp consolidated its market leadership and captured additional value share across core categories: yogurt, flavored milk, and particularly ice cream.

Our main ice cream brand Topsy has significantly expanded product coverage and developed a closer connection with consumers thanks to our full portfolio of high-quality products.

Shifting gears to our beverage business in Argentina, volume in the fourth quarter declined 5.7% and 12.4% for the full year.

The adverse economic environment prevailed in the latter part of 2019. Nevertheless, we continued to focus on those things we can control.

We maintained pricing in line with inflation while actively promoting affordability with returnable bottle initiatives and smaller-sized packages.

This quarter we launched Aquarius flavored water in a 2-Liter returnable presentation. We are the first bottler in the Americas to deploy returnable packaging in the still beverage portfolio.

Turning now to our beverage operation in the United States, Coca-Cola Southwest Beverages closed out 2019 with a strong operating performance and delivered its eleventh consecutive quarter of revenue growth, up 6% to reach close to US$711 million.

Once again, the sales increase in the quarter was driven by strong price improvement, up 4.3%.

Net price for the full year grew 5.5% to reach US$6.39 per case. This is the second consecutive year where price per case grew above consumer inflation.

True rate for the year grew 3.2%, while mix grew 2.3%. This was achieved by implementing an effective and coherent revenue growth strategy that allowed us to increase revenues 5% to reach US$2.8 billion, setting the highest revenue growth in the past three years.

Volume for the fourth quarter was up 1.7%, driven mainly by 12-ounce cans in Large Stores. In Small Stores, volume growth in the quarter was driven by Bodyarmor and transaction packages.

For the year, volume was down 0.4%. As we have mentioned previously, this slight decline was the result of transferring Dasani case pack volume from Sam’s Clubs to a third-party distributor. Excluding this effect, volume for 2019 would have increased 0.8%.

Bodyarmor was one of the main drivers of volume growth in 2019, with a total of 4.5 million-unit cases sold. Coupling this brand with Powerade proved to be a successful strategy.

Topo Chico also delivered yet again a strong volume performance during the year, with double-digit growth. We continue to expand our customer base, as almost 90% of the total volume was delivered from our Red Trucks.

EBITDA for the quarter increased 11.4% to US$104 million, representing a margin of 14.6% with an expansion of 70 basis points. This is the second consecutive quarter where earnings grew faster than revenue.

2019 was a year of achievements for our beverage operations in the US. Let me highlight some of the most important:

Revenue and price per case grew at more than twice the rate of inflation, and we managed to keep expenses flat.

We introduced more than 140 new SKUs within different categories. Some of the most relevant launches were Coca-Cola Orange Vanilla, Smartwater Alkaline and Antioxidant, and Reign energy drink.

We also continued strengthening our ACT execution model and finished the first stage of our Go to Market project. We will now focus on the development of the new generation of Service Models for Large Stores, Small Stores, and accelerating the digitalization of our operations.

Our disciplined revenue management initiatives, as well as a continuous focus on improving execution, enabled us to capture the highest value share in the Sparkling category over the last 5 years.

Now I'd like to provide an update on the progress of our synergy program.

We continue to be fully committed to reaching US$90 million in synergies over a three-year period.

In 2019, we reached our goal to achieve US$30 million in synergies. Our manufacturing optimization project is already adding to this total.

Furthermore, we are happy to announce that on December 8, we produced the first sellable product in our new state-of-the-art production facility in Houston.

I will wrap-up my operations review with our Food and Snacks businesses in the US, Mexico and Ecuador.

Wise Snacks posted flat sales in the fourth quarter and single-digit growth for the full year, mainly driven by potato chips and popcorn categories. Deep River continued consolidating as a strong brand, with double digit sales growth.

Bokados posted a sequential mid-single digit sales increase in the quarter and high-single digit growth for the full year, driven by exceptional growth in the Supermarket and Convenience store channels, as well as expanded product coverage.

New product launches also played a key role in our profitable growth strategy throughout the year. In 2020 we will continue making targeted investments, driving innovation in our portfolio while enhancing brand equity and further expanding distribution capabilities in new channels and territories.

In closing, Inalecsa delivered excellent top- and bottom-line results, posting high-single digit sales increases in the quarter and mid-single digit growth for the full year.

Let me now turn the call over to Emilio to go over our financial results. Please Emilio.

Emilio Marcos: Thank you, Arturo. Good Morning everyone, thank you for joining us today to review Arca Continental's performance and financial results for the fourth quarter and full year 2019.

Just like the previous quarter, the fourth quarter continued with strong positive results. The strength of our year-end finish is mainly due to the success of our price/pack strategy, which has been constant throughout the year; the ability of our teams to adapt to the challenging conditions with innovative initiatives for execution at the point of sale; as well as the stability of raw material prices.

2019 was an important year as EBITDA grew above 10%, our margins expanded in all operations with the exception of Argentina. It's important to highlight that the US beverage operation expanded its EBITDA margin by 50 basis points and we reached a net debt to EBITDA ratio of 1.0 time.

Moving on to the figures.

Consolidated Revenues increased 4.9% for the last three months, thanks to our price architecture capabilities and strong volume performance in Mexico with revenues up 11.5% and in the US, up 3%, offset by a negative topline in South America, down 2.2%. While for the twelve months of 2019, revenues grew 4.5%, with Mexico increasing 9.1%, the US up 5.4% and South America decreasing 4.3%.

The gross margin in the fourth quarter was 45.7%, 240 basis points higher than 2018, due to a combination of strong pricing and lower raw material prices, mainly PET and sweeteners, which yielded a benefit of around 250 million pesos.

For the quarter, Consolidated EBITDA was Ps. 8 billion for an increase of 17.7% and a margin of 19.4%. The expansion is explained by the contribution margin effect and a strict control of SG&A.

EBITDA, in 2019, rose 10.7% to Ps. 30.4 billion, for a margin of 18.7%, which expanded 110 basis points.

The Comprehensive Cost of Financing for the quarter reached an expense of Ps. 967 million versus Ps. 640 million in the same period of 2018. The variation is explained by a higher exchange rate loss due to the effect of the Mexican peso appreciation on our dollar cash position. For the full year, this line decreased 12.7% to Ps. 3.6 billion, due to lower financial expenses combined with a lower exchange rate loss compared to 2018. This quarter, we are posting a monetary position loss from Argentina of Ps. 80 million.

In the fourth quarter, the income tax provision increased to Ps. 1.4 billion, for an effective tax rate of 33.7%, explained by a Peruvian tax change for derivatives recognition and dividends received from our South America operations. For the full year, income taxes increased 30.9% to Ps. 5.1 billion, for an effective tax rate in 2019 of 30.1%, in line with our expectation at the beginning of the year.

Net Income, in the quarter, was 1.5% lower to Ps. 2.3 billion, representing a margin of 5.5% the variation is explained by a lower tax rate in 2018, from a final deferred tax adjustment due to the US tax reform. For full year 2019, net income increased 9.7% to Ps. 9.5 billion with a margin of 5.9%.

As of December, our cash position reflected an amount of Ps. 22 billion, while the total debt was Ps. 53.3 billion, as I mentioned we reached 1.0 time Net Debt to EBITDA ratio, in line with our expectations.

In 2019, our operating cash flow reached Ps. 28.7 billion. The total CAPEX investments for the year were Ps. 11.6 billion, 7.7% below our Ps. 13 billion CAPEX target announced at the beginning of the year.

In 2020, we will maintain a discipline SG&A control, as we did last year, a solid balance sheet and a dynamic execution at the point of sale to be prepare for any M&A opportunity. Our focus on our business fundamentals, disciplined strategic execution and our ingrained culture has made AC a stronger company, allowing us to adapt and succeed in challenging environments and to continue delivering value creation to our shareholders.

And with that, I'll turn it back to Arturo.

Arturo Gutiérrez: Thank you, Emilio.

2019 was a year in which we fully capitalized on our strong execution and management capabilities to confront the challenges in the beverage industry. Our exceptional market focus and operating flexibility have allowed us to thrive in an increasingly difficult environment.

Now, let me provide you with our guidance for 2020. We expect consolidated annual volume growth at around 1 percent. We will continue adjusting prices to at least match the inflation rate at each of our operations, always ensuring that our products remain affordable.

We plan to invest around 6 percent of total sales in CAPEX. We will pursue prudent and targeted market investments to boost execution and accelerate our digital transformation agenda.

In summary, while 2020 will once again be a year of challenges, we will remain focused on driving shareholder value through long-term, profitable growth while maintaining an efficient and optimal capital structure.

We are confident that we will generate consistent, quality, organic growth and continue seeking opportunities for regional expansion in the food and beverage industries.

I would like to now open the call for questions. Operator, we are ready 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. If at any time you would like to remove yourself from the questioning queue, please press star two. As a reminder, due to high interest and time, please limit yourself to one question. We will pause for just a moment to allow everyone the opportunity to signal for questions. Thank you. Our first question will come from Antonio González with Credit Suisse.

Antonio González: Good morning, Arturo and Emilio. Thank you so much for taking my question, and congrats on the results. Quite impressive. I wanted to ask on Mexico. Obviously, the margin expansion was quite high during this quarter. And we cannot really see the breakdown of whether that was more gross margin driven or expense driven. So perhaps for Emilio, if you can give us a little bit of a breakdown of what are the drivers that led to this margin expansion, and most importantly, do you think this is a recurring pace of margin gain that we should be looking for in 2020. And what's the qualitative assessment that you could make going forward? And just super quickly, if I make a follow-up on your guidance, is there any chance you break down, at least directionally, that 1 percent volume growth? What could you expect per region for 2020? Thank you so much.

Emilio Marcos: Thank you, Antonio. Good morning. Thank you for your question. Yes, well as Arturo mentioned, we had a very good quarter in all of our businesses in Mexico. In total in the region, we increased 43 percent in the quarter, as I mentioned. Several factors, and again, in both businesses. On the beverage side, we increased 4 percent, due to a very good volume growth and pricing. And also, we had lower raw material prices in the quarter. So that allowed us to improve the contribution margin in the quarter 170 basis points. So that's part of the increase; it's coming basically from the gross margin, the contribution margin. Additionally, we have a better OPEX over sales ratio in the fourth quarter, and I think, I have to say that we have an easy comparison, since fourth quarter EBITDA in 2018 decreased 1.9 percent. And volume was also negative 2 percent without jugs. So there are several factors: 1 - the base comparison of 2018 and the good performance in volume pricing, better raw materials and OPEX. Of course, the increase is super high, if you compare EBITDA of 42 percent, but as you see margins have increased in the year, we believe that margins are sustainable for the year with our price strategy that we have for this year. Continue to control our costs, and we expect stable raw material prices, so talking about margins, we feel that we should have the same levels for this year.

Arturo Gutiérrez: Just adding to that, Antonio, and good morning, we've been talking about some headwinds that we faced in our operations in the last few quarters. And I think now, things, as Emilio has explained, aligned in a much positive way for us. But also, we have to say that there are many things in the operations that we sometimes don't mention, but they are very important to get to our results. We continue to identify opportunities in our operations, so those things that we call the fundamentals, because we believe they are under our control. And in Mexico, for example, we reduced our out-of-stocks significantly in the traditional trade. We're executing better at the point of sale, particularly with the availability of our key SKUs in the market. We are improving our service to customers with new go-to-market models. Returnable packages also have increased availability. There are a number of things that our operations showed improvement, and when you have a better environment, as Emilio was describing, well, things align much better. And we continue to identify those opportunities, by the way, as we get into 2020.

To the second part of your question, the guidance on volume, we've talked about 1 percent. And I think that is pretty uniform across the countries. Maybe an exception would be Argentina. Argentina is very challenging considering the consumer environment there. We expect probably a bit more growth in Ecuador and Peru that would be the average. But all in all, they will all be in the low single digit range.

Antonio González: Thank you so much for comments, Arturo and Emilio.

Arturo Gutiérrez: Thank you, Antonio.

Emilio Marcos: Thank you.

Operator: Thank you. Our next question comes from Benjamin Theurer with Barclays.

Benjamin Theurer: Yeah, Arturo and Emilio, thank you very much for taking my question. Congrats on the results. I'd like to elaborate a little bit on the US and what you're seeing in terms of the potential with the new plant coming through. So you said you've achieved about US$30 million of synergies in 2019, still aiming the US$90 million. And I guess a bunch of that should come with the new plant. So we've seen about an 80 basis point extension in profitability on a year-over-year basis. How much additional potential do you see for 2020 with the new plant getting basically operational by the end of 1Q? How much should we expect that that's going to drive? Is it another 100 basis points just because of the plant? Or do you think we actually can get close to the 200 basis points, i.e. the US$60 million of additional synergies already in 2020? If you could share some color here, that would be great. Thanks.

Arturo Gutiérrez: Hi Benjamin. Good morning. Well yeah, effectively the plant, the Northpoint plant, is now coming into operation. It's the most important project within the list of our projects for synergies in our transition. This remains on schedule. It's scheduled to open in the next month, March 2020. And what is very important this project is that it's tracking within budget, and also the original schedule, also we're in line with that. And there's actually no injuries and no lost time to injuries during the project. So it's a fantastic project. And it contributes, as we've said, with US$30 million to our synergy plan. That, we've already achieved part of that, because in 2019, we shut down one of our facilities. We started optimizing some of the cost relating to another facility. So probably, we had maybe between US$6-7 million of savings in 2019.

Then in 2020, we have the largest portion of savings coming out from that project. And that maybe would be in the range of US$50+ million. And there is some carryover effect to 2021. That's how that contributes. And this is divided by mostly manufacturing costs, some of the warehouse costs as well and a smaller part of freight costs with the route optimizing for packaging. So with that, we're going to be getting close in 2020 to our target, although with a carryover, we're going to be in 2021 at the level of US$90+ million. And that would consider any synergies that you could really account for the revenue management implementation that you've seen during this time - but as we've said before, when you look at margins, you have also the effect of the change in mix that we've been talking about. That's an erosion in margin that is something that will naturally occur, so at the end, what you're seeing in that improvement in margin, has to consider that as well. So we've seen pretty good margin improvement in the last quarter and the last year, and so we expect to continue to improve that, but it has to consider that other effect of mix that I was mentioning.

Benjamin Theurer: Okay. But all in, you would say mid-teens, roughly 14 1/2, 15 percent in margin in two, three years time, should be achievable, once you get all the synergies done, correct?

Arturo Gutiérrez: Well, we don't have a specific target that we provided, but certainly we expect improvement in the long term to get to those levels.

Benjamin Theurer: Okay. Thank you. And congrats again.

Arturo Gutiérrez: Thank you, Benjamin.

Operator: Thank you. Our next question will come from Miguel Tortolero with GBM.

Miguel Tortolero: Hi, good morning, everyone, and congratulations on the results. Regarding what you mentioned in your press release on the universal bottle initiative, could you give more color on the potential you see and how relevant it could be on margins if there's any benefit? And also, on concentrate prices, as far as I understand it, 2019 was the third in line agreed price increase, will share your sensibility of what is to come in this regard? I mean, do you expect this year with no concentrate price increases, or is it going to depend on negotiations in the rest of the year? Thank you.

Arturo Gutiérrez: Thank you, Miguel. And good morning. I will head it over to Pepe for the first part, but let me address the question on concentrate prices, and certainly we've talked about that. And we have a continuous conversation with The Coca-Cola Company, and it includes many of the variables of the business, which would have an effect on our business model for this year and the years to come. As you know, we have a different kind of agreement now in Mexico. So we are still defining some of those variables for this year. But in any case, we will work to mitigate the impact of any of the effects on the past three years as we've said. So with respect to the universal bottle, this project is very important that we're rolling out in our different markets, because it's one of our key strengths in the market - how we remain competitive and affordable in prices, and at the same time, achieve the profitability and the margins that we have. So I'll ask Pepe to elaborate a little more on the universal bottle project.

José Pepe Borda: Thank you, Miguel, and thank you very much for your question. As Arturo said, it's very important. We have been making important investments in refillable bottles, and we take advantage of our broad portfolio and execution capabilities to be able to offer affordable products for the higher elasticity segments and thus protecting our overall profitability. So we're doing that across geographies. Overall, our refillable volume is around 3 percent - 24 percent in Ecuador, 5 percent in Peru, 1.5 percent in Mexico, and we gained 3 mixed points in Argentina, where we lost overall volumes. For example, in Argentina, we are present in 40 percent of the households, we've had refillable bottles in 44 percent of our mix. And that comes by the possibility of having these universal bottling in which we can launch all the different flavors and still beverages without the significant investment of a specific bottle. So we have moved a lot in Argentina, already in Peru, in Ecuador, in personal bottles, and we are deploying that in Mexico. And I think this is part of our overall portfolio strategy that permits us to be able to offer affordable products to our lower income customers and manage our overall profitability that we have been able to do in 2019 and we expect to do in 2020.

Arturo Gutiérrez: And for those projects, Miguel, we review not only margins but also the return on investment, because they require CAPEX. But they have proved profitable so far.

Miguel Tortolero: Alright, that's very clear. Thank you very much.

Arturo Gutiérrez: Thank you, Miguel.

Operator: Thank you. Our next question comes from Sean King with UBS.

Sean King: Hi, thanks for the question. Can we get an update on the performance of the rollout of Coke Energy across Latin America, and maybe what you are seeing on the recent rollout so far in the US?

Arturo Gutiérrez: Yes, thank you, Sean. I'll ask Pepe also to comment on that.

José Pepe Borda: Thank you, Arturo. And thank you, Sean, for your question. We have launched innovations in all categories across geographies. In sparkling we have very good traction with Coca-Cola flavors and Coca-Cola Coffee in Mexico. We have also launched some important innovations in still beverages. With Coca-Cola Energy specifically, we launched it in May only in nonspecific customers. The volume in Mexico has not been very solid. We are revisiting our strategy, but in the US, we just launched a month ago, and we are having very, very encouraging results so far. It's still very recent, but we are having very encouraging results so far.

Arturo Gutiérrez: It's a different formulation, by the way, in the US.

José Pepe Borda: Yes. And that's one of the things that we're revisiting in Mexico.

Arturo Gutiérrez: So one thing that we understand, and volumes might not be spectacular, but we need to get used to more granular growth also in our business. So if you think about Coca-Cola Coffee and Energy, they will all be adding up, but certainly their mix of the total portfolio will not be as in launches in other times. But we're still excited about the brand and the potential of that brand.

José Pepe Borda: Yeah, and Arturo adding to that, Coca-Cola Coffee that was launched in May, only in one customer, and then we just moved to the rest of the market at the end of the year, we sold around 200,000 unit cases with very high margins and very profitable product well in 26 percent of the traditional trade, and we're expecting close to a million unit cases for next year. So these are products that as Arturo said, might be small in volume but are very good in contribution and specifically on bringing in additional consumers to our user base.

Sean King: Great. Thank you very much.

Arturo Gutiérrez: Thank you, Sean.

Operator: Thank you. Again, as a reminder, if you would like to ask a question, please press star one now. Our next question comes from Sergio Matsumoto with Citigroup.

Sergio Matsumoto: Hi, good morning. Thanks for the question. My first question is on the Mexican outlook for above inflation pricing. If you could give us perhaps some breakdown between rate and mix, and what do you think makes the consumer accept these prices, because things are going quite well for you, whether it's brand strength or perhaps it's a category that they prefer to spend their money on?

And the second question is on the Houston plant. Would there be any nonrecurring expenses this year while that plant ramps up during the transition period. And if so, how much would those be? Thanks.

Arturo Gutiérrez: Yeah, thank you, Sergio. Good morning. Talking about pricing in Mexico, the most important thing there is not only about the willingness to increase prices or having a target, I would say it's about the processes that sustain that. And I think after a few years now, we've been refining our RGM capabilities. And we have much more robust processes for that. And we also have the right portfolio to do it. If you look at the many, many SKU's that we have for the different brands, it creates certainly added complexity to our operation. But at the same time, it's something that is very useful when you manage prices, when you have all these different packages, and you have returnable and nonreturnable options. So how we do that? It's continuously based on better processes. Also, we need to consider the discounts. If you look at the potential that we have by optimizing discounts in the market, in the traditional and the modern trade, we've been using analytics for that. And when you see the net average price, at the end of the day, it includes all those improvements and discounts as well. So we've been able to maintain affordability to sustain our share of value in market, and capture those opportunities. And I think the opportunities are still there. If you look at Mexico, and you compare prices in Mexico for our products with other markets, we're still very affordable. And so, I'm convinced there's room for improvement, if we continue to do it as we have based on very rigorous and analytical processes. With respect to the second part of your question, I will turn it over to Emilio for the Houston plant expenses.

Emilio Marcos: Sure. Thank you, Arturo. And thank you, Sergio. Well, good question. As you know, as part of the process, we have been disposing some assets that are being replaced by this new facility, the Houston new facility. So this is a nonrecurring expense, it's not related to the ongoing operations, and it's also one time. We have started registering this year. It's going to be around US$35 million. And we have registered most of it this year, I mean last year. And the rest will be this year.

Sergio Matsumoto: Thank you for that color.

Arturo Gutiérrez: Thanks, Sergio.

Operator: Thank you. Our next question comes from Ulises Argote with JP Morgan.

Ulises Argote: Hey guys, thanks for the questions, and congrats on the results. I was just wondering if you can comment a bit more on the cost outlook. Emilio, you already mentioned part there for stable cost expectations in Mexico, but can you give us a bit more color across regions, and particularly in what you're seeing there with the aluminum costs in the US operations? And also, maybe if you can provide some update there on the hedging structures that you had across your raw materials? Thank you.

Arturo Gutiérrez: Yes, thank you, Ulises. Thank you for your question. Well, in terms of cost, as you've seen, we have a much more stable environment. And we expect some price increases in sweeteners probably throughout this year. But we also have a better environment in other of the costs. We've been hedging some of those prices, particularly for aluminum in the US, as you say. So Emilio can provide you with more detail.

Emilio Marcos: Yes, thank you, Arturo. Thank you, Ulises, for your question again. Yes, as I mentioned, basically, PET prices will be very stable. The ones that we expect to increase a little bit above inflation are sweeteners, basically in all of the countries. We have hedged some of the needs on different countries. For example, in Peru, we have already hedged most of our needs for 2020 at a lower price than the current prices, because sugar prices, as I said, have been increasing. So we have a good hedge there. The prices of our hedges are above last year, but lower than the market price. So we're very aligned on our coverage on basically compared to the inflation in each of the countries. And talking about aluminum, we also have hedged not only LME, but the MWP in US at a lower price than 2019. So we have hedged basically 50 percent of our needs in aluminum at a lower price than 2019.

For currencies, we have also hedged some of our needs in Mexico and Peru. In Mexico, at a lower price than the average exchange rate of 2019. It's maybe a little bit higher than the current one, but it's below the exchange rate of last year. There's still a lot of volatility here, we believe, in Mexico, so that's why we have hedged part of our needs, around 50 percent of our needs for this year. And also in Peru, we hedged also around 47 percent of our needs for 2020. Also a very similar exchange rate than the current ones. And it's basically a little bit below than 2019. So again, we don't expect, I think in summary, we don't expect any huge changes on all of these raw materials and also exchange rate, and the ones that are expected to increase, we have already done some hedges basically in sweeteners.

Arturo Gutiérrez: It's a moderate increase in sweeteners, and a stable or a better environment in PET and an improved situation for aluminum. I think that would be the summary.

Ulises Argote: Perfect, guys. Thank you so much the color and congrats again.

Arturo Gutiérrez: Thank you, Ulises.

Operator: Thank you. Our next question comes from Hector Maya with Santander.

Hector Maya: Hi, thank you very much for taking my questions. I just wanted to know for the US if you could share some more details about the evolution of the pricing strategy and segmentation in this quarter in US dollar terms. And also, how agency sales behaved and if you could help us understand what the most favorable factor for the margin expansion in the US in terms of costs and raw materials there.

Arturo Gutiérrez: Yes, you asked about pricing, and the second part of the question - can you repeat that again, Hector, please?

Hector Maya: Yes, sorry. It was about the pricing strategy and segmentation in US dollar terms. The agency sales, and how costs and raw materials favored in the margin expansion there.

Arturo Gutiérrez: Yes, well, thank you for your question, Hector. Certainly we have improved our RGM in the US. This is a part of our initial strategy, as we've mentioned. And also, as I was saying for Mexico, this is based in better processes and better segmentation, also, of our efforts. But it also requires the collaboration across the system. So we've been able to integrate ourselves to the US system and achieve that now for a number of years, because 2020, we'll still see some of that. So as you say, price is a combination of rate, of the base rate, and the change in the mix, which as I was saying, affects margin, but also improves the average price for our products. The rate - we expect that also to be aligned with inflation, so that the mix would be in addition to that. It plays out differently for purposes of margins and profitability. So we expect that to continue throughout 2020, and this is one of the things that we've been focusing on more directly in the US. Pepe, maybe you can provide more detail about the numbers for 2020.

José Pepe Borda: Yes, thank you, Arturo. Thank you, Hector, for your question. And as Arturo was saying, we expect around consumer inflation slightly above prices in what is true rate. And that is pretty much already in negotiation with the customers and with the rest of the system in the US. But on top of that, we are focusing on packages with higher profit per case, that will give us also an important mix effect, such as transaction packages, the still transaction packages that are the smaller packs, the small bottles. Still packages like BODYARMOR will also make better margins, Smartwater and Coca-Cola Energy that we just mentioned. Those packages will give us an important mix effect also.

Arturo Gutiérrez: So if you look at margins, we proved that focusing on growing products and categories that deliver higher absolute profit per case, we, as I said, we transferred part of our water business. And the results in the quarter resulted in topline profit expansion and bottom line efficiencies. We had volume growth and revenue growth, but we also had better pricing for raw materials, mostly PET and aluminum. We had a disciplined expense control, and the benefit of the synergies that is quite significant. And that allowed the EBITDA growth that you saw, despite, I would say, extraordinary insurance claims proceeds that we received in 2018. So even with that, the results were very solid. And I think there are several factors that influence the ones that I mentioned. With respect to agency, that volume, I believe, declined with respect to 2018. Is that right, Emilio?

Emilio Marcos: Yes, slightly declined. We don't register, as we have explained, that volume in our total beverage volume. So basically the effect you see in Other Income, the net effect, is minimum, because as we have also explained, it's a cost based formula. So there's basically no margin, so we have registered the net on other incomes. And the volume dropped in 2019 a little bit from 2018.

Arturo Gutiérrez: The other positive effect on our results for the fourth quarter and the year was the improvement in our Oklahoma operation, that operation that we incorporated to Coca-Cola Southwest. And Oklahoma doubled their EBITDA for the year after we stabilized and realized the synergies as well.

Hector Maya: Excellent, excellent. Thank you very much.

Arturo Gutiérrez: Thank you, Hector.

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

Alvaro Garcia: Hi, Arturo, Emilio, Pepe. Thanks for the call and congrats on results. My question is a bigger picture question. You touched on it a bit at your Investor Day, but I wanted to touch on the prospect for additional dividends. You're now at very comfortable levels of leverage at 1.0 times net debt to EBITDA. And I wanted to sort of pick your brain as to when you thought we might see that, or if we might see it at all. Thank you.

Arturo Gutiérrez: Yeah, thank you, Alvaro. Good morning. Thanks for your question. Well yeah, this is something that we continuously analyze and have conversations with our Executive Committee about, and it requires analyzing our prospects for potential projects throughout the year, and obviously the generation of cash that we have. And we will put into perspective all these possibilities and maybe come with an update the next call for you to see how we can better allocate our resources throughout the year.

Alvaro Garcia: Okay, great. I guess we'll wait for the next call. And just one follow-up on Peru. I understand that it's been a bit more a competitive environment. We noticed that in your water and stills, sort of volumes for the quarter specifically. I was just sort of wondering what initiatives you might put into play, in Peru specifically, to sort of combat that. Thank you.

Arturo Gutiérrez: Yeah, the trend in the fourth quarter in Peru was certainly not positive. This year, we're working on several initiatives to reverse that, including some tactical actions in the short term. Our main volume opportunity is purified water, I would say. We also have an opportunity in sparkling flavors. We will continue to focus on affordability, availability also of the universal bottle. But Pepe can elaborate a bit more on that and the opportunities we have in Peru.

José Pepe Borda: Yes, thank you, Arturo. And thanks, Alvaro, for your question. As Arturo was saying, our main volume opportunity has been in both purified water and in sparkling flavors. In purified water, actually in both of them, the loss is concentrated in the less profitable wholesaler channel. In water, we are planning to recover the lost volume with our two tier brand strategy, focusing the Benitino brand in this segment to protect the profitability of San Luis, our premium brand in the other channels. We are also focusing in affordability and increasing of our availability of the refillable bottles, also improving segmented execution. You see now our intelligence center and trying to identify granular opportunities to execute plans at the customer level, so that we can work around the competitive issues and then trying to maintain profitability overall.

Alvaro Garcia: Very clear. Thank you very much for the space for questions. Thank you.

Arturo Gutiérrez: Thank you, Alvaro.

Operator: Thank you. At this time, I would now like to turn the call back over to Arturo Gutiérrez for closing remarks.

Arturo Gutiérrez: Thank you. And thank you all for participating in our earnings call today and for your continued interest in Arca Continental. As always, our team is available for any additional questions you may have.

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

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