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Arca Continental 3Q21 Earnings Conference Call Transcript
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Operator: Good day, everyone, and welcome to the Arca Continental conference. All lines have been placed on mute to prevent any background noise. Please note that this call is being recorded. After the speakers' remarks, there will be a question-and-answer session, and instructions will be given at that time. For opening remarks and introductions, I would now like to turn the conference over to Melanie Carpenter of I-Advize Corporate Communications. Ma'am, please go ahead.

Melanie Carpenter: Thank you, Katie. Good morning, everyone. Thanks for joining the senior management team of Arca Continental this morning to review the results for the third quarter and first 9 months of 2021. The earnings release went out this morning and it's available on the company website at arcacontal.com in the Investor Relations section.

It's now my pleasure to introduce our speakers. Joining us from Monterrey is the CEO, Mr. Arturo Gutierrez; the CFO, Mr. Emilio Marcos; and the Chief Commercial and Digital Officer, Mr. Jose 'Pepe' Borda; as well as the Investor Relations team. They're going to be making some forward-looking statements, and we just ask that you refer to the disclaimer and the conditions surrounding those statements in the earnings release.

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

Arturo Gutierrez: Thank you Melanie, and thanks to everyone for being with us this morning.

Let me start by saying that we are encouraged by our third quarter and year-to-date performance.

We continued delivering strong financial results, as we successfully navigated through the challenges of input cost inflation, transportation constraints, labor shortages and supply chain disruptions.

Those factors are making 2021 even more difficult than 2020 in many respects. Nonetheless, all our regions saw sequential volume acceleration.

Total consolidated volume grew 7.1% in the quarter, reaching 594 million-unit cases.

Total net consolidated revenue increased 7%, to $47.9 billion pesos. Our positive results were driven by our portfolio and pricing initiatives, point-of-sale execution, rollout of affordable presentations, and financial discipline across our territories.

On a comparable basis, the impact of currency on this quarter's net revenue result was a 7.5% headwind. Notwithstanding, our focus on improving our execution enabled us to deliver overall solid results.

In the US, the consumer environment greatly improved throughout the quarter as vaccination rates rose and covid cases declined. Consumer mobility significantly increased which led to more frequent social gatherings, raising travel and event activity. This drove considerably higher demand in the Away from Home channels.

We are encouraged to see that in our territories in Latin America, lockdowns have eased almost entirely as vaccination programs accelerated.

Consolidated EBITDA for the quarter grew 6.4% reaching $9.2 billion pesos, representing a margin of 19.2%, for a dilution of 10 basis points.

Although we have experienced some delays resulting from the supply chain challenges that I mentioned, particularly in transportation equipment and fleet supply, due to the shortage of electronic components, our business has not experienced any material impact due to these disruptions.

Nevertheless, we are confident that although these shortages are significant and widespread, they are likely to be transitory. The capabilities we have built over the years will allow us to overcome this situation.

So let me dive a bit deeper into the key drivers across our geographies.

Our beverage business in Mexico maintained its positive momentum, delivering another solid quarter of volume growth, up 2.6%.

This was the fourth consecutive quarter of volume growth for Mexico, driven by the recovery of relevant channels such as convenience, supermarkets, on premise, at work, and entertainment venues.

The on-premise channel posted another quarter of positive volume as the economy has started to gradually recover on the back of greater mobility and increasing availability of COVID-19 vaccinations. This dynamic also drove growth in immediate consumption packages, up 2.6%.

Volume growth was broad-based across the portfolio and driven by solid performances in sparkling with 1.6%, stills 14.2% and water at 14.3%.

Total net sales in Mexico rose 10% to reach $21.1 billion pesos, marking the twenty-first consecutive quarter of net revenue growth.

Average price per case in Mexico - not including jug water - rose 5.7% in the quarter, reaching $69.61pesos.

On the profitability front, EBITDA increased 12.7% to $5.4 billion pesos, representing a margin of 25.6% for an expansion of 60 basis points.

We continue innovating in the sport drinks category. This quarter we launched Powerade Fit to expand our portfolio of low-calorie products. This new Powerade version drove incremental sales, capitalizing on ad campaigns during the Tokyo Summer Olympics.

Topo Chico Hard Seltzer is achieving solid positioning standing among the top 3 brands in the flavored alcoholic beverages category in our key markets in Monterrey and Guadalajara.

Moving now to our beverage business in South America, total volume grew 23.9% in the third quarter, resulting from a strong performance across our three markets in the region.

Argentina and Peru were the bright spots, already surpassing 2019 levels. And although Ecuador has been struggling to emerge from lockdowns, there have been tangible successes as lockdowns eased, and vaccination programs accelerated.

Total revenue in South America rose 15.5%, reaching 8.9 billion pesos. EBITDA increased 11.7% to $1.6 billion pesos, representing a margin of 17.9%.

Our beverage business in Argentina delivered solid 26.5% volume growth in the quarter, cycling strong volume growth from the same quarter in 2020. Performance was driven by colas, personal water and still beverages, up 18%, 29.5% and 99.2%, respectively.

Our commercial initiatives have focused on protecting portfolio affordability via an accelerated introduction of multi-serve returnable packages, as we continued capitalizing on the launch of the Universal Bottle refillable format.

With almost half of the population fully vaccinated and the easing of restrictions allowing greater flexibility in social and economic activities, Argentina is beginning to feel a positive change in relation to the COVID-19 pandemic.

In Peru, our beverage operation delivered sequential volume growth in the quarter, up 29.4%. This represents an 8.9% volume increased compared to the same quarter in 2019.

The sparkling category grew 27.8% with Coca-Cola and Inca-Kola brands sustaining positive momentum, up 28.1% and 28.5%, respectively.

Still beverages once again delivered remarkable double-digit growth, driven by Powerade in the sport drinks category.

The traditional trade, wholesale and on-premise channels were the best performers, with 12.3%, 53.1% and 101.3% growth, respectively.

We continue accelerating our digital agenda in Peru by actively expanding partnerships with e-tailers and food aggregators to capture additional share of the digital shelf.

We are also doubling-down on the roll out of the “Suggested Order” tool using Advanced Analytics algorithms to reduce stock-outs.

I will conclude my commentary on South America with our operation in Ecuador. Volume was up 12.2% in the quarter, driven by still beverages, up 44.8%. Volume in the quarter was just slightly below volume posted in the same quarter of 2019.

The ambitious plan launched by the new president to vaccinate 9 million people against Covid in 100 days was accomplished on time and has played a key role in reviving the economy.

We continue promoting immediate consumption and returnable packages. Single serve mix increased 7.1 percentage points as compared to last year, once again driven by the recovery of the on-premise channel, up 53.2%.

Returnable packages have shown solid growth throughout the crisis and continue to accelerate. Just in the third quarter, the mix of returnable packages increased 2.8 percentage points.

The use of our Universal Bottle brings more flexibility to expand the availability of brands such as Fanta, Sprite and Fioravanti.

Once again, returnable packages were a proven vehicle to deliver affordability to consumers, as they allowed a sustainable entry price point to the category.
Turning now to our beverage operation in the United States, Coca-Cola Southwest Beverages maintained steady momentum with its thirteenth consecutive quarter of EBITDA growth.

Net revenue grew 12.4%, reaching $840 million dollars, thanks to a successful off-cycle price increase to mitigate rising inflation.

Net price rose 7.7%, driven by our sustained strategy of shifting volume mix to high-profit per-case packages.

Volume for the quarter expanded 4.3% reaching 117 million-unit cases, slightly below volume posted in the same quarter of 2019 and signaling a steady recovery across the FSOP and Large Store channels.

We continue to see strong demand overall, fueled by consumer confidence and improved mobility in Home Market channels.

Volume shifted substantially to single-serve presentations, as our FSOP outlets continued recovering and consumers began to resume pre-covid activities.

We continued to grow value share in sparkling beverages. Transaction packages, Immediate Consumption and 12oz Cans were the main drivers of our share growth in the quarter. In still beverages, Body Armor closed another successful quarter, gaining incremental space in Large Stores.

We still face a challenging staffing environment, so we initiated innovative actions to hire new associates and retain our current ones. We made compensation adjustments, provided performance incentives, invested in improving our facilities and enhanced training programs.

Despite these challenges, EBITDA for the quarter increased 7% to $114 million dollars, representing a margin of 13.6%.

We made significant progress in our digital agenda, as we prepared to deploy a new supply chain management IT platform that will help us further improve forecast accuracy, production planning and finished product transportation. This system will be a key enabler to help offset some of the raw material increases we expect in 2022.

Importantly, e-Commerce sales represented 11% of total revenue in the third quarter. August was a record month as we reached our highest number of active customers in myCoke.com. Currently, over 11 thousand customers actively place their orders through our B2B ordering platform.

I will finish our operation review with our Food and Snacks businesses.

Bokados in Mexico posted sequential double-digit sales increases, with strong EBITDA growth driven by the traditional channel, solid pricing and enhanced management of promotions and discounts.

Wise Snacks in the U.S. posted mid-single digit sales decline in quarter. Wise was impacted by rising commodity inflation and incremental labor and transportation costs, as well as co-manufacturer price increases.

Despite some near-term challenges, we see plenty of opportunity to increase profitability through improving our average selling price, becoming more efficient with productivity, simplifying our supply chain and logistics network, and rationalizing SKUs.

On a positive note, Deep River brand delivered solid sequential performance as Food Service customers continued reopening.

Inalecsa, our snacks business in Ecuador, posted a double-digit sales increase in the quarter, resulting from improving mobility trends and lapping the big Covid-19 restrictions in 2020.

In a noteworthy item, our Food and Snacks subsidiary completed the acquisition of Carli Snacks, based in Quito. Carli ranks among the leading companies in the snacks industry in the country with a wide national footprint and a relevant market position in categories such as potato chips, extruded snacks, tortillas, protein snacks, and plantain-based chips.

This transaction increases our presence and strengthens our competitiveness in Ecuador. The combination of Inalecsa and Carli provides a solid platform that will bring innovation to our portfolio, product, and brand expansion, as well as synergies and the sharing of best practices.

Before, I turn it over to Emilio to discuss our financial performance in detail, I'd like to mention the great progress we continue to make in our sustainability initiatives.

As part of our World Without Waste efforts, our beverage operation in the U.S. increased the PET collection rate to 30% of the volume we're putting out in the market, from a 6% baseline in 2020 and reduced our usage of virgin plastic by 7 million pounds.

To date, we have recycled more than 29 million pounds of PET, which has been integrated into our new 100% recycled PET bottles.

Furthermore, we collected more than 38 million pounds of PET through our *Every Bottle Back* initiative, our highways, waterways and parks cleanup events, and our partnership with PetStar.

I’m pleased to report that this quarter we inaugurated the first of four wastewater treatment systems we are developing in conjunction with the Mexican Coca-Cola Industry and state governments.

This first wetland, which is a nature-based water treatment system, is now serving a large part of the community in Jalisco, treating 3 million liters of water per day to supply clean water for the population, as well as hydration for an expansive nursery and forestry preserve. We are investing a total of $170 million pesos in these projects.

This initiative is part of the Mexico Reforestation and Water Harvesting Program in collaboration with the Coca-Cola Foundation, to support our on-going efforts to preserve water sources and reduce our environmental footprint, improve efficiencies in the use of water in a sustainable manner.

In closing, I would like to mention that our Annual Corporate Integrated Responsibility Report was recently issued and highlights our performance against our ESG goals. If you have not done so already, I encourage you to read it. Is available for download on our corporate website.

Thank you. Emilio, over to you.

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

I’m pleased to report that we started the second half of the year with a solid top-line recovery and positive consumption trends across all our regions, with price adjustments to mitigate the increase in raw material prices, mainly PET. Our strong operational and financial discipline were key enablers to help protect profitability.

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

Consolidated Revenues increased 7% in the third quarter. We are sustaining sales growth acceleration since the beginning of the year, mainly driven by positive volume trends in our beverage businesses, including the significant increase in consumption in Peru, and true rate price adjustments in the United States and Mexico.

On a currency neutral basis, Net Revenue grew 14.4% in the quarter, as we see a revaluation of the Mexican Peso against all the currencies.

Year to date, Consolidate Revenue rose 6% to $134 billion pesos and 12.1% on a currency neutral basis.

Gross profit grew 6.3% in the quarter, reaching $21.6 billion pesos with a dilution in contribution margin of 30 basis points. This was mainly driven by the increase in raw materials and partially offset by pricing initiatives and the recovery of the single-serve mix.

We continued to maintain our holistic cost management plans to optimize SG&A. We have been able to sustain a healthy balance of positive volume performance and OPEX-to-sales optimization for a 120-basis points benefit. This helped us reach an Operating Income of $6.8 billion pesos, up 12.6%, for an expansion of 70 basis points.

For the quarter, Consolidated EBITDA increased 6.4% to $9.2 billion pesos for a 19.2% margin. Excluding the FX impact, EBITDA in the quarter grew 12.4%.

Our Year-to-Date, EBITDA margin maintains a healthy expansion of 100 basis points, in line with our goal to protect profitability throughout the year.

The tax rate reached 33% for the quarter, 2.3 percentage points higher than the previous quarter. This is a one-time adjustment as we expect to close the year slightly above tax rate level of 2020.

Net Income grew 23.2% in the quarter, for a solid net margin expansion of 90 basis-points, due to the combination of two factors: the increase in the Operating Income and the decrease of 43% in the Comprehensive Financial Results. The decrease is made up of a reduction of 12.1% in interest expenses and an exchange rate gain of $177 million pesos versus last year.

We continue making great progress in our liability management initiatives to optimize our outstanding debt, taking advantage of the conditions available in our markets.

As of September, Net Income rose 17.3% for a 70 basis-point expansion.

Now, moving onto the balance sheet.

An extraordinary dividend of $1.50 pesos per share was distributed on September 13th, 2021, which represents a payout ratio of 76% and a total dividend yield of 3.5%.

Our capital allocation priorities remain consistent, and we keep continuously analyzing alternatives to return value to our shareholders.

As of September, cash and equivalents stood at $33 billion pesos with a total debt of $53 billion pesos, resulting in a leverage ratio of 0.6 times. This leverage level puts us in a good position to be ready for any M&A opportunity we may find.

CAPEX was $4.3 billion pesos as we expanded investments focused on returnable bottles and to improve our commercial and distribution capabilities. These investments will allow us to make our commercial capabilities more resilient, assuring excellent market execution to drive increases in immediate consumption presentations, along with the recovery of the on-premise channel.

We will continue our positive momentum and we are optimistic that we will return to pre-pandemic levels sooner than expected.

The speed up of the economy activity in our territories and the increase in consumption from the reopening and stabilization of all our channels, combined with our strong pricing capabilities and the discipline to keep stable our OPEX-to-sales ratio, should help us to accomplish our goal of maintaining profitability margins throughout the rest of the year and to have a solid start in 2022.

Now, let me hand it back to Arturo.

Arturo Gutierrez: Thanks, Emilio.

Just as we experienced in 2020, the Covid-19 recovery period in 2021 is creating significant volatility in demand, which has required us to remain nimble and flexible in managing our business.

Our recovery story has gained steady momentum, as away-from-home channels begin to take hold and positively impact price/mix.

We realize that mobility is on the rise, but we are convinced that certain consumer habits have changed and will keep evolving. And that is why we will continue making great strides to accelerate our digital agenda and the roll-out of our B2B platforms.

Although we foresee near-term uncertainty, we expect that the current pace of inflation is transitory and confident that we are better positioned to manage through this environment.

Despite the upward pressures in commodities and pandemic-related disruption in supply chains, we feel good about the rest of the year.

We are working diligently to take appropriate action in the back half of this year to manage the ongoing volatility, applying our operational discipline and adjusting productivity levers.

Looking ahead into 2022, we think there is potential for greater operating leverage, as we capitalize on our strong pricing capabilities and effective cost management to continue driving healthy profitability while enabling substantial reinvestment.

We have demonstrated the resiliency of our business and our ability to operate with agility during an unprecedented crisis, while focusing on strengthening our relations with customers, consumers, and the community.

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

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

Thank you. Our first question comes from Marcella Recchia with Credit Suisse.

Marcella Recchia: Hi Emilio, Arturo, thank you very much for taking my questions. I have 2 questions here on my side. First is about Mexico. You delivered better trends than your peer KOF that published results yesterday night, particularly in terms of profitability, right? In your view, what could mainly explain these gaps? And how can we think about the region’s margin trajectory going forward? That's my first question.

And secondly, I would like just to understand a little bit more what drove the EBITDA decline in U.S. and consequently, the margin compression that we saw this quarter? Thank you very much.

Arturo Gutierrez: Thank you, Marcella. Good morning. Let me talk about Mexico first and maybe Emilio can make a few remarks on the U.S. operation. As you saw, our Mexico business unit closed with an EBITDA growth and a very good margin considering the circumstances. What we're seeing now is volume clearly recovering from the pandemic crisis. And we're pretty much back on our pre-pandemic levels at this point. And if you go through the channels, modern channel has recovered significantly. It grew 10% versus previous year. And the traditional channel has been very important for us. I think that has been really the engine of our growth and profitability throughout the pandemic. It's remained flat versus previous year, but it has been facing a challenging comparison.

It is growing now almost 4% versus third quarter of 2019. And as we've seen in other similar crisis in the past, the number of outlets in the traditional channel has increased. So that is a very relevant factor. The other thing that I would point out is the recovery in the on-premise channel as well. It continues to show improvement. It was 34% versus previous year. The volumes are getting closer to reach its pre-pandemic level. It's still below third quarter 2019; it's about 11% below third quarter of 2019. So we're not there yet since there is some capacity restriction, and that remains active. But we're very optimistic that we've been able to maintain very good volumes despite the circumstances. And we still have the upside considering that we're still operating under many limitations.

So the other important thing to highlight is the resiliency of the categories, how we've been able to maintain - especially the Cola category growing - and the recovery of some of the categories that have been mostly impacted during the pandemic. And then pricing has been a very important factor there. As you know, we've been able to manage prices very effectively. In Mexico, we've been pricing above inflation consistently, both in our net price and at true rate, and we plan to continue to do that in the future. We already have our plans for 2022 and some carryover from what we've done this year.

And also, I think a very important factor are the efficiencies in our SG&A. And these are initiatives that we've been implementing for the last 1.5 years, they've been impacting positively our margins. And although some of those expenses might be coming back, especially as they relate to marketing, we also have important learnings that have been very important to preserve our margins going forward. So even though we're going to be facing some pressure in our margins, we're very optimistic about how we handle pricing and OpEx going forward. So with that, I'll turn it over to Emilio to make some comments on our U.S. operations and profitability.

Emilio Marcos: Sure. Thank you, Arturo. Thank you, Marcella, for your question. Yes, our U.S. beverage operation in Coca-Cola Southwest diluted the margin in the quarter, 70 basis points. And we can explain that because we had higher SG&A expenses, coming basically from promotional activities that, that were reduced last year because of the pandemic. So we are increasing that kind of expenses. And also, we had an increase in payroll expenses due to -- you may know that there's some challenges on the labor market right now in U.S. So we have some impact on the payroll, particularly in the third quarter. But we expect that our staffing challenges to gradually improve in the remainder of 2021. So we expect that, that impact will be reducing in the coming quarters. But I think it's important to mention that year-to-date margins are really,

really good. We have 15%, 130 basis points higher than last year. So we have a very good level. And also, EBITDA was up 7% in the third quarter, even though the margins were lower, but EBITDA grew 7%. And year-to-date, we have an increase of 20.7% in local currency in the U.S. operations. So for 2021, we will continue our positive trend, and we expect to close the year with a margin expansion compared to the margin of 2020 for the U.S. operation.

Arturo Gutierez: So those 2 factors are very relevant. One is the challenge in staffing. As you know, the environment was very challenging, especially for us during the summer. And second, the shortages and allocations we face in the supply of products that we do not produce in-house, such as Smartwater and others and some of the glass presentations. So those 2 factors, which, as Emilio saying, are, we believe, transitory, and they've been improving week by week.

Marcella Recchia: That’s very clear. Thank you very much gentlemen.

Operator: Our next question comes from Antonio Hernandez with Barclays.

Antonio Hernandez: Hi good morning, thanks for taking my question. My question is regarding, you've already mentioned some of the items affecting profitability and how they can be offset. But more from a gross profit point of view, considering, of course, input inflation, but also the fact that sales mix has been recovering with the reopening and less mobility restrictions across all countries. So what are your expectations more at the gross profit line considering these two items?

Arturo Gutierrez: Your question is, I suppose, in general, are you're referring to specific operation.

Antonio Hernandez: Well, Mexico and also South America because you mentioned that Argentina is showing a recovery beyond that.

Arturo Gutierrez: Yes. We -- as Emilio said, we expect to close 2021 with a positive trend. And as you saw, we were able to protect our margins this quarter and maintain our margin expansion of September. So we have several effects. We expect certainly a recovery in the top line for next year, although we're facing harder comparisons as we move to the end of the year, we expect volume growth across all operations. And second is pricing. As I said, pricing would be in line or above inflation. We have already our plans for 2022, where in both countries in the U.S. and Mexico, we expect to be above inflation in our pricing, both in a net price, and then we have a mix effect in both countries of maybe 1% in Mexico and 0.5% in the U.S. that will improve our overall pricing.

But certainly, we will be seeing more of the impact of raw material costs going forward. That is why it was very important to implement the off-cycle price increase in the U.S. and also the price adjustments that we've been making in Mexico. And that will provide significant carryover, especially in the U.S. for 2022. We have probably more than 3% would be carryover for next year. So that's very important as we face a tougher raw material environment. And with respect to raw materials, just to be more precise, this is going to be mostly in the U.S. for aluminum and to a lesser extent, sweeteners. The raw material environment in Mexico is going to be more stable. So again, we know that 2021 was maybe a high point in our margins. And that if you go back 5 years, probably, this is -- and after we consolidated the U.S. operation, maybe this is the best margin we've had, and although we'll have tougher comps in 2021, 0ur goal is to protect margins through pricing, obviously, volume. And the discipline in SG&A, that continues to be very important for us as a source of profitability for the company.

Antonio Hernandez: Perfect, thanks a lot and have a great day.

Arturo Gutierrez: Thank you, Antonio.

Operator: Our next question comes from Juan Guzman with Scotiabank.

Juan Guzman: Good morning Arturo, Emilio, Pepe and everyone on the team. Congrats on the results and thank you for the space for questions. I have 2 questions here. The first one is regarding the direct-to-home platform. So even when the on-premise channels keep recovering across your regions, it seems like this at home digital channel also keeps gaining traction and posting solid results in countries like Mexico and Peru and also appears to be a nice complement to vending. So if you could share this with us, what's the current contribution of this direct-to-home channel to your original volume for sales? And how should we think about this channel contribution in the future?

And my second question is regarding recycled PET. I would appreciate if you could share with us some additional color on how this project is advancing in terms of usage across your regions beyond the U.S. in order to reach your RPET commitment for 2025. Thank you very much.

Arturo Gutierrez: Sure, Juan, good morning. I'll let Pepe Borda answer the first part of the question, and then maybe you can turn it back to me for PET. And just to say that direct-to-home is certainly a very important channel. It's gaining a lot of traction. And even as we normalize our channels, it continues to be very relevant for our strategy, and it combines with our digital strategy as well. So I will let Pepe talk about that, and then I'll make a few remarks about PET.

Jose "Pepe" Borda: Thanks, Arturo, and thank you, Juan, for your questions. As in many other industries, in last year, we had a boost in our direct-to-home operations. During the third quarter of this year, we had our registered customers reached 510,000 households in our territory, increasing 15% versus previous year. And out of those, around 310 are active monthly buyers, growing around 8% versus previous year. We continue developing that platform and growing penetration in more categories. You know, we started as a jug business, and now it's becoming a total beverage business. So we have penetration of sparkling beverages around 83% of our customers, dairy 63%, and in other categories growing up to almost 40%. So -- and we are growing revenues in all categories. On the other hand, our digital buyers topped around 21,000 customers in Q3, and that's growing 40% versus 2020, and we are retaining most of those digital buyers.

An important initiative here to increase the average ticket in direct-to-consumer is increasing digital payments. We've increased the number of cashless transactions by almost 25%. And we are launching, and we are testing different alternatives in Peru and Ecuador, with low results yet, but we are every time learning and adjusting our platforms. Today, we sell around US$100 million in Mexico in that platform, to have an idea of what that -- of the volume of that channel with very good profit margins. And most of that volume is really accretive because it's not cannibalized volume. We expect that platform to grow between 10% and 20%, at least in the next years, and we are investing a lot in technology and in processes to be able to serve our customers in that platform. Arturo, do you want to take the other question?

Arturo Gutierrez: I will address your question on PET and recycled PET. First, by saying that the adoption of this circular economy in our business model is very important. That's really embedded into our business strategy. And so we have our sustainable packaging principles that are applied across our operations. And now we're getting close to 30% of recycled PET in our packaging. And -- but it's not only the recycle PET content. It's also about using more returnable bottles. So you've seen that the universal bottle initiative has been very important in Argentina, Peru, Ecuador, Mexico… And in the U.S., we have been improving significantly, incorporating more recycled resin into our bottles. We now are going to be reaching 50% of recycled resin in every bottle that we produce in the U.S. and there are other factors that also relate to being responsible in connection with recycled material.

We're committed to create also social value through PetStar in what we call the Inclusive Collection Model. And that refers to being more responsible in the way bottles are collected in Latin America and also addressing some of the needs of the waste pickers and their families. An example of that, in Mexico we support 900 boys and girls, children of waste pickers, and those are supported by our programs. So it is about collecting bottles, it's about doing it responsibly, it's about incorporating recycled material. And we believe that these solutions are imperative to really creating a path to keep plastic out of natural environments for good. We really don't want to see any of our packaging end up where it shouldn't. And that's why we aim to collect and recycle every bottle and can - regardless of where it comes from - for every one we sell, and that's our goal for 2030.

And that's the driving force to establish our World Without Waste goals 3, 4 years ago. So we have some much to do, but we have made significant progress against these goals in territories that we serve. Bottles are made, all with 100% recyclable plastic and they're now available in Mexico, U.S. and Peru in certain packages and products. And as I said, in the U.S., we're getting close to 50% in what we produce; that was 10% a few years ago. So we will not stop until we meet the goals that we put forward and that we grow the business the right way.

Juan Guzman: Great. Always a pleasure to talk with you. Thanks for the color.

Arturo Gutierrez: Thanks, Juan.

Operator: Our next question comes from Luis Willard with GBM.

Luis Willard: Hi guys, good morning and thanks for taking my question. Just a quick one, well first of all, also congratulations on the results, very solid. So I would like to talk about the state of the consumer, both in Mexico and in the U.S., I mean, probably with inflation stickier, not only in your products, of course, but also in other ones. How do you see the health of the consumer entering into 2022? And how sticky do you see your pricing actions to be throughout the year? That would be my question. Thank you.

Arturo Gutierrez: Thank you, Luis. Well, what we're seeing in every market is a very steady recovery. If you look at our operations in the case of the U.S. and Mexico, we didn't have as big an impact with the pandemic. All in all, our volumes now are above 2019, which is truly the baseline that we're using this year and still operating under significant limitations. So that gives you an idea of how the environment has been improving and how resilient the business is and how consumption is really picking up.

So we look at our main channels and how they have a positive trend in the third quarter. In the case of the U.S., large stores continue to grow, they grew 8%, and in traditional trade in Latin America, 2.5%. So those were the engines for growth. And that, as I said before, the on-premise is getting back slowly but already in the positive side, growing 37% versus previous year. It's not still -- not yet their pre-pandemic level, but that signals a very important recovery. We see in the U.S. a more accelerated recovery of consumption, and that would be due to the advance in vaccination deployment and government initiatives to accelerate economic recovery. But Mexico has been a very resilient market, and it would have a full recovery by the end of the year.

If we look at South American operations, they've had great performance in the third quarter as mobility restrictions have been reduced in those markets. Remember, Peru and Ecuador were the most affected by strong COVID waves during the second quarter, so we're going to carry those impacts throughout the end of the year, and we're expecting to reach a pre-pandemic volume levels by the first quarter of next year, 2022. So I would say, in summary, Mexico, the U.S. and Argentina are in the best position to reach 2019 volume levels now. Actually, they are reaching it this year. Peru and Ecuador, it's going to be by early next year. But certainly, their consumption trend right now is gaining more traction. So that's the general environment. I don't know, Pepe do you want to add something on that.

Jose “Pepe” Borda: Yes, just adding to Arturo's comments. As you know, we manage our pricing with a lot of detail, understanding elasticities and measuring them constantly. And our affordability strategy is one of the key efforts that we have around Latin America. So we are using and reinforcing our affordability platforms and refillables in the areas where we see most of the opportunities that is powered also by our Universal Bottle, and we can take price adjustments in the places where we see that possible. We are seeing good transaction in most of our markets, as Arturo was saying, we're seeing Peru catching up, Argentina, even though facing difficulties, also catching up in consumption. So we are deploying a set of actions to make sure that we can cater to more price-sensitive customers at the same time that we can capture incremental revenue where we can. Hope that's helpful, Luis.

Luis Willard: Very helpful, very clear, thank you.

Arturo Gutierrez: Thank you, Luis.

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

Alvaro Garcia: Good morning, Arturo, Pepe, Emilio and team. I have 2 questions. My first one is on this last topic you were discussing, Pepe and Arturo, on elasticities in the U.S., we saw a similar rate increase 4 years or 5 years ago from the system. I was wondering if you can sort of compare the elasticity you saw then to now. That’s my first question.

And my second question, KOF in their call and in the release was a lot more vocal about their multi-category distribution strategy, really diversifying the red truck. And we've discussed this a lot, Arturo, during the past on sort of the potential for YOMP and the potential for CPG companies that don't have BSD to grow alongside your capabilities. I was wondering if you can sort of give us an update on that strategy. And if you're seeing more traction there, less traction there, an update there would be wonderful.

Arturo Gutierrez: Yes. Thank you, Álvaro. I think -- Pepe, you can address the first part of the question and then turn it over to me and talk about multi category. But in the U.S., just briefly, we've been very effective in our price strategy, not only this year in the 4 or more years that we've been operating in the U.S. and I think effectiveness would mean that customers would agree that this would create value for our chain and also that the industry, in general, has reacted to those price movements. But Pepe, maybe you can give us more.

Jose "Pepe" Borda: Yes. Just adding to what you're saying, we've seen a smaller price sensitivity and elasticity in this price increase in the U.S. that we've seen – that the history in the last years has shown. And obviously, this is a good moment in which consumption in the U.S. is booming in which all the the businesses are reopening. So we haven't seen an important fall in our volumes. So I think this has been a very good moment for that off-cycle pricing. We obviously rely on our brands that are strong enough to support these increases due to our marketing, our innovation, our execution efforts. And we use that to offset the pressure we have on COGS. We are price leaders in all of our markets with few exceptions. So competition, and competition is following, and customers are also benefiting from better economics. So we continue to rely on this RGM and pricing process with selective price increases. And as I said before, affordability strategy is key, a better pricing and packaging architecture that we are starting slowly but steadily to deploy in the U.S., permits us doing smarter price increases that we were able to do in the past. And we are -- and we know we've done that for a long while in Latin America. So we're pretty confident that this price increase is being done at the right level and the right time.

Arturo Gutierrez: I think a final point that's very important, Alvaro, is that we have added some complexity to our price-pack architecture, and that allows us to manage more effectively our revenue management.

Let me talk about the second part of your question, which is the multi-category distribution. And as you know, we have a different perspective to that than we've had in the past. And our partnership with Coca-Cola Company has evolved. We are working on the details of that alignment actually with Coca-Cola to evaluate potential opportunities. And also, as you know, we have been distributing other products even in the red truck, in the case of Argentina, we've been distributing beer for many years. And by the way, this category has had significant volume, we're growing 29% this year, and that's on top of growth in 2020 even under the crisis. So we had learnings about what are the potential of our system. And if you think about it, all in all, what we do is really create value with our customers in the channels where we operate and connect leading brands and execute in the most effective way with them.

So we think there's more opportunity in more categories across Latin America and categories, especially that complement and strengthen our portfolio. And we will explore those jointly with the Coca-Cola Company in the following months. We already launched or have evaluated a few of those possibilities. As you know, we have launched in the case of YOMP. Another initiative, which is to distribute some of the products directly to our customers in the traditional channel. So that has also the purpose of connecting better, addressing a pay point of the up and down the street retailer and creating more loyalty. But at the same time, we're evaluating the red truck for other possibilities that would be obviously profitable for the system, but at the same time, complementing what we have and creating that stronger connection with our retailers. And the other part is that this has a very strong connection with our digital strategy as well. So if you think about the possibility of having a wider portfolio of products, it relates to the ability to deploy our B2B platforms for order taking. And sometimes we can distribute, sometimes we can use third parties. So we're developing those models and testing those models as well.

Alvaro Garcia: Great. Thank you very much.

Arturo Gutierrez: Thanks, Alvaro.

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

Fernando Olvera: Hi good morning, everyone and thanks for taking my questions. I have 2 if I may. First one, can you comment what is your market share by region and how it compares to 2020? And my second question is, given your solid financial position now the net debt to EBITDA ratio is 0.6x, have you evaluated to pay another extraordinary dividend before year-end as you did last year? Thank you.

Arturo Gutierrez: I'll just go briefly to the second part and then turn it over to Pepe. And as you know, the shareholders' meeting of our company has delegated to the Board the possibility of paying additional dividends and that will be dependent on projects that we might have and use of our cash resources. So that is for the Board to analyze that and decide. So it is certainly a possibility going forward.

And with respect to the share of market, we've had stable share across time. Last year, we had actually probably the highest share that we've had in some of the markets. We have leading market share, as Pepe mentioned, and that continues to evolve within a very identifiable range. So Pepe, maybe you can give more color on that.

Jose "Pepe" Borda: Yes, and adding to that, during 2020, we had an exceptional market share growth within our NARTD categories, even with the challenging environment that the pandemic caused, and this was achieved through our solid execution, our digital capabilities, such as AC Digital, which allowed us to remain in close contact with our customers even during the pandemic. This is also a demonstration of the resilience of our operations to face difficult and unforeseen situations. So this year, we're cycling 2020's extraordinary growth. And for example, in Mexico, market share values are now receding slightly versus 2020. However, comparing against pre-pandemic levels, we have continued our growth. And we obviously are adjusting our packaging architecture in highly competitive areas and reinforcing our affordability platforms to recover the share, but the long-term trend is overall positive.

Arturo Gutierrez: We always aim to maintain that balance of our market share, profitability, volume growth, and based on better execution and segmented execution, I would say.

Fernando Olvera: OK, great, thank you.

Arturo Gutierrez: Thank you, Fernando.

Operator: Our next question comes from Sebastian Hickman with JP Morgan.

Sebastian Hickman: Hi guys, thanks again for the call and congratulations on the strong quarter. I'm sorry if I'm making you repeat yourself here, but it seems I dropped off the call when you're speaking about the U.S. earlier. So I was just wondering if you could quickly go over the outlook that you had here in terms of prices and margins going into 2022. Again, sorry if I'm making you repeat yourself.

Arturo Gutierrez: Yes. No problem, Sebastian. Yes, as we said, the U.S. has maintained a steady momentum with it. Now it's the 13th consecutive quarter of EBITDA growth in the U.S. despite the crisis that we faced. And we continue to see signs of recovery, especially in the on-premise market. That's 20% above previous year and a strong performance in the large store channel that's 8% versus previous year. So that obviously projects what will continue in the future. We had -- we mentioned we faced two significant challenges: the staffing environment and we've taken action there. It's affected some of our OpEx, mostly because of overtime, but that's transitory and improving. And we've also faced supply shortages in allocation of products, especially those that we do not produce in the U.S. and that also is improving. But despite the challenges, EBITDA for the quarter continued to grow. And we had a margin contraction mainly because of those factors, and we continue to grow value share in the marketplace. So going forward, we expect a challenging 4 quarters since we have -- we're already on our way to recovery in the fourth quarter of last year. But we project to close the year with volume growth with stable gross margins and significant EBITDA growth in the year and solid margins. Going forward, we are facing a difficult raw material environment, particularly with aluminum going up and to a lesser extent, fructose. But the upcycle price increase that we implemented plus effective actions in trade promotion optimization and still further initiatives to improve our OpEx and SG&A, in general, will result in very solid margins for 2022. That's our expectation.

Sebastian Hickman: OK, thank you so much.

Arturo Gutierrez: Thank you, Sebastian.

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

Arturo Gutierrez: Thank you and thank you all for participating in our call and for your continued interest in our company. So please reach out to our Investor Relations team for any questions you might have. And have a great day.

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

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