Investor Relations

Monterrey
Ulises Fernández De Lara
ulises.fernandezdelara@arcacontal.com
Tel: 52 (81) 8151-1525

Pamela Ortiz Sánchez
pamela.ortizsa@arcacontal.com
Tel: 52 (81) 8151-1814

New York
Melanie Carpenter
Ideal Advisors
melanie@ideal-advisors.com
Tel: 917-797-7600

Public Affairs and Communications

Guillermo Garza
guillermo.garza@arcacontal.com
Tel: 52 (81) 8151-1441

Vicente Esteban Chávez
vicente.chavezc@arcacontal.com
Tel: 52 (81) 8151-1400

Arca Continental 2Q23 Earnings Conference Call Transcript
July 21, 2023 @ 9:00 AM CT

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

Melanie Carpenter: Thank you, operator. Good morning, everyone. Thanks for joining the senior management team of Arca Continental this morning to review the results for the second quarter of 2023. The earnings release went out this morning and it's available on the company website at arcacontal.com in the Investor Relations section.

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

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

Arturo Gutierrez: Thanks Melanie, and good morning everyone. Thank you for joining our call.

Let me start by saying that we are pleased with our second-quarter and year-to-date performance. As we reached the midpoint of the year, our business momentum remains strong.

We achieved sequentially improving operating performance, positive top-line growth and margin expansion, driven by our pricing initiatives, effective point-of-sale execution, and a strong commitment to financial discipline.

Let's now discuss our consolidated results.

Total volume grew 3.2% in the quarter, reaching 636 million-unit cases. Year-to-date total volume grew 3.7% with all our operations in Latin America delivering sequential volume expansion.

Net revenues in the quarter rose 5% to 56.1 billion pesos. On a currency neutral basis net revenues increased 13.6%.

In the first half of the year, total revenues reached 106.7 billion pesos, a 7.3% increase and cycling 15.2% growth in 2022. On a currency neutral basis revenue year-to-date grew 15.6%.

Our revenue management capabilities and advanced digital tools, coupled with our flexible price-pack architecture, continued to be key enablers of our sequential revenue growth.

Notably, AC Digital, our B2B platform, has seen sizeable increases in online orders. More than 50% of our volume in the traditional trade across Mexico and South America is now placed through this mobile platform.

EBITDA rose 8.4% in the quarter and 10% year-to-date, reaching 11.3 billion and 20.9 billion pesos, respectively.

On a currency neutral basis, EBITDA increased 15.4% in the quarter and 17.3% year to date.

EBITDA margin for the quarter reached 20.2% and 19.5% in the first half of the year.

I'm happy to announce that, once more, we have achieved a new milestone in our history by surpassing our previous record for the highest EBITDA in a quarter.

Additionally, we have accomplished a remarkable feat by exceeding 11 billion pesos in earnings within a single quarter for the first time.

Now let´s review our performance and highlights across operations, beginning with Mexico.

Unit case volume, not including jug water, grew 1.9%, cycling strong 5.2% growth from the same quarter in the prior year.

Last June, our operation in Mexico delivered a record-breaking month in terms of volume with over 100 million-unit cases.

Volume performance was led by growth in Water and Still beverage categories, up 13.6% and 8.6%, respectively.

Water category grew, driven by Topo Chico in both the Traditional and Modern Trade channels.

Brand Coca-Cola also maintained its growth momentum, supported by new package options.

Total net sales in Mexico rose 11.6% in the quarter, reaching 26.6 billion pesos, marking the twenty-eighth consecutive quarter of net revenue growth.

These seven consecutive years of net revenue growth undoubtedly demonstrate the resilience of our beverage business in Mexico. The average price per case in the quarter, excluding jug water, rose 9.4%, reaching 81.3 pesos.

EBITDA increased 13.3% to 6.6 billion pesos in the quarter, representing a margin of 24.7% and marking the eighteenth consecutive quarter of EBITDA growth.

This quarter we introduced Flashlyte, a new product in advanced hydration with essential electrolytes and nutrients to support a fast recovery.

Mexico is the first market to launch this new brand and it is a great example of our efforts to raise the bar in innovation with a relentless focus on addressing our consumers' needs.

Furthermore, the pilot program in the spirits category, which is part of our strategy to explore new avenues of profitable growth is showing encouraging results.

We are capturing the anticipated synergies, as we observed increased sales of our core portfolio of ARTDs and mixers among customers who also purchased spirits. As a result, we plan to expand the scope of this initiative by introducing additional routes, looking to gain valuable consumer insights and better understand market dynamics.

Moving now to our beverage business in South America, total volume grew 12% in the second quarter, reaching 152 million unit-cases, cycling double-digit volume growth from the same quarter in 2022 and driven by stellar performances in Peru and Ecuador.

Total revenue was up 2% in the quarter, reaching 9.8 billion pesos, while EBITDA decreased 5.5% to 1.6 billion pesos, representing a margin of 16%.

In Peru, our team delivered another quarter of outstanding sequential volume growth, up 17.4%, while cycling 16.6% growth in the second quarter of 2022.

Volume growth was driven by sparkling, water and still beverage categories up 12.1%, 37.9% and 35.2%, respectively. The flavored water category was also one of the best performers in the quarter, supported by new product launches in the San Luis and Frugos brands.

Traditional trade, on-premise and supermarket channels delivered strong growth, as we continued promoting immediate consumption.

Moving over to Ecuador, our beverage business posted a solid 11.4% volume growth, cycling strong 8.7% growth from the prior year.

Water and sparkling categories grew 17.9% and 10.2%, respectively. Growth in sparkling was supported by the launch of Coca-Cola Zero Sugar and Sprite in a 1.0-liter glass refillable format, as we continued refining our price-pack-channel strategy and promoting affordability with new package options.

We also saw a sequential positive trend in single serve mix, up 1.3 percentage points in the quarter, supported primarily by the on-premise channel showing sustained recovery.

Tonicorp posted high single-digit sales growth, driven by flavored milk, yogurt, and ice cream categories.

We gained share in core value-added categories as we capitalized on our strong brand equity, on-going innovation, and the recovery of the dairy industry, particularly in key channels such as schools and leisure.

In Argentina, volume in the quarter grew 1.1%. This quarter marks the third year in a row delivering volume growth.

In the face of a challenging macroeconomic backdrop, our team drove solid sequential operational results, supported by our affordable portfolio initiatives and the expansion of returnable presentations.

Moving over to our beverage operation in the United States, Coca-Cola Southwest Beverages continued its momentum and delivered strong results.

Volume for the quarter declined 2.3% to 115 million-unit cases.

Although we had one less delivery day in April and cycled aggressive promotions from last year, we reestablished positive momentum and closed the gap substantially in May and June.

Volume performance was led by growth in Small Stores, up 2.5%, and FSOP, up 0.5%. The FSOP channel continued to expand with all packages showing growth, led by Transaction Packages, followed by 12oz Cans.

Changes in channel dynamics enabled us to grow volume in high revenue-per-case packages, such as immediate consumption, with Monster and Smartwater, up 2.7%, 2.4% and 9.4%, respectively.

Size package mix continued to favor Single-Serve products, growing 0.7%.

Net revenue for the quarter rose 11.7% to one billion dollars, marking the ninth consecutive quarter of double-digit revenue growth. Average price per case in the quarter grew 14.3%. True rate increased 13% mainly due to the off-cycle price increase carried out in 2022, along with better management of promotions.

Our market leadership position remained strong as we gained value share in Non-Alcoholic Ready-to-Drink beverages this quarter, up 0.9 percentage points, driven by the sparkling category.

EBITDA for the quarter grew 15.8% to 172 million dollars, marking the eighteenth consecutive quarter of EBITDA growth. EBITDA margin for the quarter finished at 16.5%.

Moreover, we continued to achieve significant progress in digitalizing customer engagement, as we expanded our B2B platform. By the end of June, 90% of eligible FSOP customers had adopted myCoke.com, which is a 9% increase compared to the previous year.

To wrap-up the review of our operations, our Food and Snacks businesses sustained steady momentum in the second quarter, posting single-digit sales growth.

We kept driving profitability across all our snack divisions, as we accelerated productivity and cost efficiency programs.

Wise Snacks in the U.S. posted single-digit revenue growth in the quarter. Sales growth was driven by a strong performance in the corn puff category. We are transforming our classic Cheez Doodles brand into the most dynamic and best flavor brand in the market.

Bokados in Mexico posted high single-digit sales increase and its twenty-third consecutive quarter of revenue growth, driven by sustained growth in the traditional and modern trade, coupled with segmented pricing initiatives.

Inalecsa in Ecuador delivered excellent organic top and bottom-line results, posting high single-digit sales increases in the quarter, and consolidating its market leadership in the core salty snacks, while capturing additional share in new high growth segments such as popcorn and pastries.

And now I'd like to go over the great progress we continue to make in our sustainability initiatives.

I am pleased to announce that, through our investment in PetStar, we have successfully tripled our recycling capacity right here in the state of Nuevo Leon with a $3 million-dollar investment.

This represents a significant milestone in our joint pursuit of creating a World Without Waste together with The Coca-Cola Company, underscoring our commitment to sustainability as an integral part of our sustainable packaging strategy.

And this is just the beginning of our journey. In collaboration with Coca-Cola Mexico and other bottlers, we are fully dedicated to further enhancing PetStar's recycling and collection capacity throughout the country.

With an investment of nearly $175 million dollars, our objective is to establish more than 40 PET collection centers by 2027, a remarkable expansion from the current 8 centers.

And prior to handing it over to Emilio for a review of our financial results, I'd like to mention a great initiative that was announced last week, together with The Coca-Cola Company and other bottling partners from around the world.
Looking to increase positive impact across our value chain, we announced the creation of a new, 137.7-million-dollar venture capital fund focusing on sustainability investments.

The fund will focus on key investments in packaging, decarbonization and other initiatives with the potential to reduce the Coca-Cola System's carbon footprint, allocating resources in promising startups to accelerate and scale up sustainable solutions for environmental challenges through innovations and new technologies.

Thank you, and now I will turn it over to Emilio.

Emilio Marcos: Thank you, Arturo. Good morning everyone and thank you for joining us today to review our financial performance for the second quarter of 2023.

Our consistent focus on revenue growth management initiatives, combined with effective market execution, enabled us to deliver another quarter of solid financial results. Our operational and financial discipline played a crucial role in overcoming on-going macroeconomic challenges, sustaining positive momentum in EBITDA growth, and EBITDA margin expansion.

Moving on to the results: In the second quarter, consolidated revenues rose by 5% and 7.3% year-to-date, driven by the combination of our volume and pricing initiatives, which enabled us to drive revenues while protecting product affordability.

On a currency neutral basis, revenue grew 13.6% in the quarter and 15.6% in the first six months, as we faced significant FX headwinds due to the strong performance of the Mexican Peso.

During the second quarter, gross profit increased by 9% to $25.8 billion pesos, while for the 6-month period, it rose 10.4% to $48.9 billion pesos.
Gross Margin expanded by 170-basis points in the second quarter and 120-basis points in the first half of the year. The main factors accounting for this were our effective pricing initiatives, consistent hedging strategy and a more stable environment for most of our key inputs compared to the previous year.

Operating Income for the quarter came in at $9.2 billion pesos, a 12.6% increase compared to the same quarter of 2022. The Operating Margin presented a 110-basis point expansion, mostly led by the solid top line, operating discipline, and raw materials price declines. For the first half, Operating Income totaled $16.5 billion pesos, a 14.7% increase, and a 100-basis point expansion in margin compared to the same period of 2022.

In the second quarter, Consolidated EBITDA grew 8.4% to $11.3 billion pesos, with a 60-basis points margin expansion, reaching 20.2%. For the accumulated period, EBITDA grew by 10%, while the EBITDA margin expanded by 40-basis points, reaching 19.5%. On a currency-neutral basis, EBITDA grew 15.4% in the quarter and 17.3% in the first half of the year.

Net Income increased by 11.1% during the quarter, reaching $4.7 billion pesos with a 50-basis point expansion in Net Profit Margin. Year-to-date, net income reached $8.4 billion pesos, a 15.1% increase compared to the previous year, while net profit margin expanded by 50-basis points. Operating Income performance contributed positively to both quarterly and year to date results.

Now, let´s turn to the balance sheet:

On April 17th, a dividend of $3.5 pesos per share was distributed, leading to a payout ratio close to 39% of retained earnings and a dividend yield of 2.2%.

As of June, cash and equivalents were $23 billion pesos, with a total debt of $46 billion pesos and a net debt to EBITDA ratio of 0.6 times. The operating cash flow reached $13.3 billion pesos.

Our operational discipline, coupled with improved raw material prices, enabled us to achieve solid profitability and margin expansion during the quarter and year-to-date.

We remain confident that the long-term dynamics of the business will continue to be robust, and we are committed to sustaining consistent organic growth, and elevating our focus on productivity measures to protect profitability.

Now, let me hand it back to Arturo. Please, Arturo.

Arturo Gutierrez: Thank you, Emilio.

As we look ahead to this year, we are convinced that there is potential for greater operating leverage, as we capitalize on our strong pricing capabilities and effective cost management to continue driving healthy profitability.

We will continue to step up our game in marketplace execution and sharpening our revenue management capabilities. This has never been more important and our investments in building this capability over the past few years are giving us a clear advantage.

We will also remain relentless in our efforts to become more efficient, leaner, and swifter, as we continue with stringent oversight of our financial resources and seek additional opportunities to optimize costs and expenses.

At the same time, we will double down on our digital transformation agenda. We will also continue actively exploring how technology can transform the customer experience, how we can generate new revenue sources, and become more efficient in our processes.

Moreover, we will keep advancing in implementing the collaboration agreement with The Coca-Cola Company, as we work towards creating shared value in the marketplace.

In summary, we are very pleased with our overall performance and remain encouraged by the long runway for growth in our markets.

Operator, we are ready to open the call for questions, please.

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

Thank you. Our first question comes from Thiago Bertoluci with Goldman Sachs.

Thiago Bertoluci: Yes, hi, good morning, everyone, Arturo, Emilio, Pepe, Arca team. Congrats on the results and thanks for the presentation and taking questions. If I may, I would like to explore first, how you are seeing underlying demand going forward. I think that you mentioned record high volumes in June but obviously this follows unprecedented weather conditions, right? Going forward, any views on how you are seeing demand trading and more importantly, with this backdrop of materially better costs going forward, should we expect that this cost curve will be captured at the EBITDA or should we believe that you might be reinvesting part of this margin to foster growth going forward? This is the first one.

And if I may a second one, obviously again, capital allocation, valuation and M&A, your stock saw very nice trading over the last 12 months obviously sustained by super solid earnings growth, but now that you are a high-teens EPS peak trading levels, if this new valuation level opens up room for further M&A optionality, does it change the views and the likelihood that we might be seeing some accelerated inorganic activity going forward? And where is the debate within the company on how to take advantage of this momentum to create a path for continuous growth, not just on the core business, but outside of it? Thank you very much.

Arturo Gutierrez: Thank you, Thiago. Let me address, first, your question on demand going forward and volumes. We had very good volumes in the second quarter as you saw and more importantly, we were cycling very strong volumes in the second quarter of last year. If you see in the case of our main markets, Mexico and the US, we were cycling growth. And overall in the company we were cycling a 6.7% growth in the second quarter of last year. So, even with that, we still achieved a growth of 3.2% and going forward, we continue to see growth and reinforce our guidance for the second half of the year. We have many opportunities still to capitalize in growing our digital platform, in expanding our analytics capabilities, especially with our suggested order algorithm. And some of the basic things of our playbook - like cooler placements in South America particularly have been very important for volume growth.

Another thing we have that it's important mentioned is the recovery of the on-premise channel that is still underway. In many of our markets we're still below our 2019 pre-pandemic level. So we're still optimistic about volumes for second half of the year, particularly in the more competitive market in the US where we've seen a better trend in the last month or weeks of the second quarter. So we expect to continue to grow in the second half of the year.

And with respect to cost, I will let Emilio elaborate, but we're going to see a better raw material environment in the second half of the year. Particularly for PET and aluminum and we have also implemented some hedges that Emilio can talk about.

With respect to your question on M&A. Well, the situation has not changed essentially, we continue to be open to evaluate opportunities in Latin America and the US. We know we have a strong position both, financially, in terms of deployment of capabilities to capitalize any prospect. So we don't feel pressure to rush into any deal at this point. And as you know, many things have to be aligned aside from just the economic value creation. But we continue to believe there's still a lot of value that can be captured through consolidation in the Coca-Cola system, I would say, around the world. And this is based on just the history of transactions recently, not only ours, but many others that have created value through consolidation.

So I will turn it over to Emilio to elaborate on the cost scenario going forward.

Emilio Marcos: Thank you, Arturo. Well, as we see on the second quarter, prices for most raw materials started to decline or stabilize. We expect this favorable trend to continue for the rest of the year except for sweeteners in basically all the countries, but, as you know we haves some hedges we have hedging sugar in Peru we hedge 90% of our needs at lower price than 2022. And we have a vertical integration in Mexico and Argentina, as you know.

The most impacted operation will be Ecuador regarding sweeteners – sugar – because we don't have any hedges on that country. And regarding hedges for this year as we have mentioned, we have hedged our needs – 75% of our needs of aluminum in US, and 60% in Mexico at a lower price last year, and high fructose 75% in US and 100% in Mexico lower than current prices but little bit higher than last year prices. Sugar, as I mentioned 90% in Peru and we also hedge our needs in Mexico of our US needs 50% of our US needs at a lower cost than last year and also 100% of our US dollar needs in Peru are lower than 2022.

And regarding EBITDA margins, for the second half of the year, we expect to continue with this positive trend. But with harder comps from 2022 and we're keeping the goal to protect these margins and working to reach 2021 margins since we're higher than 22 full year margin. So that's what we're looking for the second half of the year.

Arturo Gutierrez:
So I would say it's a even more positive outlook than what we expected last time. We were expecting to sustain margins as Emilio's saying, now we're more optimistic going forward.

Thiago Bertoluci: Thank you very much, Arturo and Emilio.

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

Fernando Olvera: Hi, good morning. Thanks for taking my questions. I would like to start with South America, if you can explain the strong margin pressure seen in Argentina? And regarding the US, I mean, can you comment what was the main reason that caused margin expansion in this division and, specifically, how you expect margins to behave in the remaining of the year based on your recent comments about margin performance on a consolidated basis? Thank you.

Arturo Gutierrez: Yes, thank you, Fernando. I'll talk about the US first and generally about Argentina, and Emilio will explain in more detail some of the accounting effects in Argentina as well.

So, if you look at the US: First of all, we've had a great performance in the US recently, especially in the bottom line. As you saw, we actually have now new objectives in terms of the margins that we can achieve. And that has been based to a great extent on good revenue management and good pricing strategy and this is part of catching up on opportunities as we go forward, you know, pricing is going to be obviously more moderate. But certainly, we had an opportunity to capture better price per case. And at the same time, we have a good scenario as Emilio was explaining on raw materials. Particularly in PT and aluminum for the second half of the year.

We also have a growth opportunity in the US going forward, which I mentioned before. And the other factor is that there are some efficiencies to capture, particularly in our supply chain. We're going to launch a new project where we are going to be consolidating some of our manufacturing and warehousing operations and that is going to bring additional efficiencies and effectiveness to the supply chain.

So, all in all, that results in a very good margin scenario, sustaining margins, which as you see have been expanding recently, we had more than 60% margin in the second quarter, and that's more than 100 basis points expansion. So again, we are optimistic about our US business for the second half of the year.

With respect to Argentina, in Argentina, we had the macroeconomic challenges for our business. We have a very difficult comp cycling a 23% increase in volume in the second quarter of last year, but still we were able to achieve growth in the second quarter of this year as well.

We had a record second quarter in terms of volume, with 32 million unit cases in Argentina. I think that is remarkable and it comes to demonstrate that even in a difficult macro environment, the business is very resilient. We expect to continue to grow in the second half, even with the high base that we have as comp and through the deployment of the same tools basically the same playbook for the rest of Latin America with digital platform, our analytics, our portfolio strategy. What differentiates Argentina is that we have to be obviously more effective and constantly revising our pricing and adjusting our price pack architecture. I think we've been also very successful in that regard. There is an impact in margins in Argentina as a result of the hyperinflation accounting and currency depreciation. I'll let Emilio elaborate a little bit on that.

Emilio Marcos: Yes, thank you, Arturo. Before talking about South America, I'd just like to add on US that in the quarter, EBITDA grew in local currency 15.8% and the first six months 18.8%. You don't see that because of the translation in Mexican pesos and the appreciation of the Mexican peso. But it's important to mention that EBITDA is growing very well during the quarter and the first half of the year.

Regarding South America, thank you for the question because it's important to explain each of the operations. As you can see in the quarter, EBITDA margin in the region declined 130 basis points and 140 basis points in the first six months, and, as Arturo mentioned, this negative impact is explained mainly by the operation in Argentina due to the restatement of the financials because of the hyper-inflationary environment prevailing in the country.

So that's why I would like to mention country by country: in Peru, in the second quarter, EBITDA margin we have an expansion of 100 basis points to reach 21.4% mainly supported in all operations because of the strong volume performance, effective pricing strategy, and more stable raw materials. We also have a better SG&A to sales ratio. We reduced 60%. I mean 60 basis points in Peru, on that ratio. So we have a positive performance in Peru on margins.

And talking about Ecuador, even with much higher sugar prices, as I mentioned, we were able to expand margins by 100 basis points in the quarter. So for both countries we continue to have a positive - we expect to have the positive trend in the second half.

So as you can see the only issue is with Argentina; in the second quarter in Argentina, we increased contribution margin in local currency. What I mean is excluding the restatement effect by inflation shown by contribution margin expanding 60 basis points and EBITDA margin was 14.1%. We have some pressure on OpEx due to salary adjustments for labor and freight increases above inflation. But considering these adverse effects in inflation and foreign exchange rate on the restatement and translation of the financial statement to Mexican peso, the EBITDA margin for the quarter was 4.9% instead of 14.1% without this effect. So we are facing a very higher comps also because last year we increased our margin 121 basis points. Last year we reached the highest level in the past four years having a margin of 17.9%. So we are still facing the rest of the year this impact unresolved because of inflationary pressure and foreign exchange headwinds. We're still committed to continue working with operational discipline and be proactive in some strategies to face these challenges and protect margins on a local currency basis since the other factors we cannot control, and inflation and exchange rate it has been very high impact on those restatements on the financials.

Arturo Gutierrez: Thanks, Fernando.

Fernando Olvera: Great. Thank you so much.

Operator: And we'll take our next question from Alvaro Garcia with BTG.

Alvaro Garcia: Hi, good morning Arturo, Emilio. Just a quick question, a very simple question actually on my side. I was wondering, we obviously lived through this higher CapEx cycle and a big chunk of that is heading to returnable. So I was just wondering if you could highlight the importance of returnables in Mexico, what that does to the stickiness of your business. And sort of related to that, maybe you can comment in Mexico how the traditional channel performed relative to the modern channel, that'd be helpful as well. Thank you.

Arturo Gutierrez: Yeah. Thank you, Alvaro. I'll turn it over to Pepe to explain. I'll just say that returnable, it's a very important part of our strategy. The mix has been shifting during the pandemic obviously depending on the channels that are more active in a previous situation than as some of the channels recover there is also a change in the mix.

Where we continue to invest on returnable strategy, particularly through the universal bottle, which is an important initiative as you know, and also more recently in our glass returnable presentations from the half liter in Mexico is a very important package. And we're investing in the market and strategies and also some tactical initiatives to sustain its recovery. I'll let Pepe elaborate a little bit also talk about the traditional trade and its performance in Mexico.

Jose Borda: Yeah. Thanks, Alvaro, thank Arturo. So the traditional trade in LatAm and also in Mexico is growing steadily. Especially in Mexico, we grew 4% in this quarter cycling a 3% growth on previous year. So the traditional trade is healthy and growing, and growing more than 2019. But also the modern trade is growing. It's growing in number of outlets and so you see the mix, the channel mix is shifting a little bit to the modern trade but the traditional trade is very healthy.

As you said, talking about refillables, almost 20% of our CapEx is for refillables and as you know we use it as a revenue management tool to be able to offer a package that is affordable to the consumers who are much more elastic while we can make more money in some other packages in which we see a less elastic behavior. We are also - remember that we are also investing in slowly but steadily changing our refillable packaging to the Universal Bottle and that helps us in terms of operational efficiencies and being able to launch other products that we normally offer in refillables such as Del Valle, and other still beverages. So just summarizing, refillables is a key part of our strategy.

Alvaro Garcia: Wonderful. Thank you very much.

Arturo Gutierrez: Thank you, Alvaro.

Operator: Thank you. Our next question will come from Lucas Ferreira with JP Morgan.

Lucas Ferreira: Hi, good morning everybody. I have two questions: maybe the first one to Pepe if you can talk a little bit more about this AC Digital journey. You mentioned the number of 50% of the clients already in the platform. Can you talk a little bit about the experience of these clients, maybe the satisfaction in the NPS. If these clients are engaging more with the company, buying more items of your portfolio, you know, what kind of results on a sort of a peer-wallet basis you're having – is the client more engaged with the company and more satisfied with the transaction? And if you can comment a little bit on how that's maybe leveraging your multi-category efforts as well?

And the second question, I mean overall, but, mainly for Mexico and US how you guys see the price elasticity of the consumer now coming from a year of very solid price adjustments, if the consumer is already kind of giving you some pushback? How you think about sort of the revenue growth in terms of volumes versus prices going forward? Thank you.

Jose Borda: Thank you, Lucas. So let's start with the first question and talk a little bit about AC Digital and the digital commercial ecosystem and everything about it. So just to begin with, let's remember why are we doing this? And we've been very vocal on this. We're doing this to protect and potentialize the core business to become the most important partner of our customers and increasing our share of wallet with the customers and then to create new monetization opportunities and optionalities. So first of all, our initial focus has been to digitize the core. Arturo mentioned that already 82% of our traditional trade customers are using the platform and more than 50% of our volume already comes for customers that are digitized and that work in conjunction with our salesforce. That means in the second quarter, we had around US$900 million of revenues and you asked about what does that mean? So, we see there is a clear positive performance swing on digitized customers that ranges - between country - that ranges between 5 and 13 points versus non-digitized customers across LatAm. But these incremental volumes - where are they coming from? They are coming from more order frequency, higher drop size and a growth in portfolio assortment. And the sales lift also comes from refocusing the time spent in the market by our sales reps on higher value activities. We measure execution at each point of sale and we've seen 2 percentage points of improvement in execution index versus non-digitized customers. So that's digitizing the core.

At the same time we are working on a holistic value proposition for AC's customers and our selected partners with a set of products and services that will be integrated and scaled behind one single solution and platform that today is AC Digital. We will revamp and scale our loyalty and customer engagement program. You asked about the NPS - the NPS of our customers using the platform is around 80% in Mexico, and is in the 30% to 50% in other countries in South America and improving. So the next month, we also defined an initial set of financial services that we want to expand from what we had in Yomp!Premium that we are expanding and integrated in this whole digital commercial ecosystem. So the next 12 months will be all about refining, developing and scaling this set of products and services and integrating them into one holistic value proposition.

On the other hand, Yomp!Premium continues with healthy growth still independently but in the way it is going to be integrated with the platform. Customers are performing better with number of transactions shows a healthy increase also.

In the US – myCoke - today 90% of eligible FSOP customers are already using myCoke. So that's what we're doing as of now. I'm talking about just the multi-category projects.

In Ecuador, we are already distributing beer in 30% of the market with plans to expand in the next month.

In Peru, we began a pilot in the south with positive momentum and performance in volume and increased distribution, and most importantly, it is helping us to strengthen our business.

In Mexico, we are just starting the pilot project in Jalisco on top of what we're already doing with Diageo. But I think the most important thing we can say is that we are seeing - when we talk about beer and spirits - we are seeing the expected synergies as we are selling more of our core portfolio of NARTDs and ARTDs in the customers where we sell beer and spirits.

And just to finish, there is another set of categories where we - what we aim here is to generate platform stickiness. We already have a multi-category platform operating in Ecuador, as you know, more than 40% of our customer share of wallet is managed by us, and in Mexico we started commercialization and distribution pilot to take Yomp!Express to the Coke distribution in Monterrey. It's too early but the results are encouraging.

Arturo Gutierrez: Let me address the second part of your question on pricing and particularly in Mexico and the US. I think what we would highlight in terms of pricing is that we have been improving our capabilities and that is very important in the last few years. There is certainly some elasticity, we've learned that many times elasticity has been lower than was anticipated in most of our markets. But I would say that, as we look at growth going forward, there are other factors that for us are more relevant. Capturing the opportunity in the US of the growth of other categories would really be the key variable in the US is to address the opportunities on the growing categories versus the ones that are more stable. The other thing to consider is that pricing also involves the better management of promotions, our TPL tool has proven very effective; also shaping the mix in the market towards the more profitable packages, which is what we've been doing in the US.

And, in general, growth in the rest of the market depends on capturing many opportunities that we still have in the marketplace. So to finalize as we go forward, we're going to be more conservative in the second semester of this year with prices and we have some carryover, but also, raw material pressure will be reduced. So we think it's a positive scenario for the second half.

Arturo Gutierrez: Thank you, Lucas.

Operator: Our next question will come from Sergio Matsumoto with Citigroup.

Sergio Matsumoto: Yes, hi, good morning. Thank you for taking my questions. Arturo, earlier in your prepared remarks you mentioned in the US there is a consumer dynamic change and you also commented about Monster, and in the press release also mentioned the supermarkets. Could you explain more/elaborate on these changes in consumer dynamics in the US and perhaps link it to your comment suggest now about the innovations that you're making to capture these growth opportunities in the US. These innovations are they designed to capture certain consumption occasions? If you could explain those that would be great. Thank you.

Arturo Gutierrez: Yeah, sure, Sergio. While the US we allow it's a different market in terms of its dynamics to our Latin American markets. We believe that the building blocks to be successful in every market are the same. But certainly, we face a different scenario in terms of categories and channels in the US market.

Sparkling is a more stable category in the US. And there is a bigger opportunity in this stills categories. In this quarter, we had growth in Monster, Minute Maid, tea, those are the growing categories and the ones that we have to continue to reinforce our leadership. We also grew significantly with Topo Chico and Smartwater, as you remember, we had some issues with our supply chain in Topo Chico last year that have been addressed so now we are performing much better.

And in terms of channels, we have an on-premise channel that is growing, but it's still below the pre-pandemic levels. And with respect to that channel, as with respect to the rest of the market, we are focusing on growing the most profitable packages, which would be sparkling immediate consumption, basically. The post-mix volume has been impacted throughout the pandemic and it's not really recovered fully even now.

In terms of the rest of the channels, small stores have been growing and that's also a good thing because the immediate consumption packages continue to grow. We have to take into account we have one less delivery day in the quarter and that we are cycling aggressive promotions from last year if you consider the dynamics for the volume in the US.

What do we expect looking forward? We expect to continue the trend that we had in the month of May and June where we grew in volume. We also expect to keep increasing our value share and we're going to be focusing on the one hand on transactions, profitability, a smart price-pack architecture and also the opportunity to keep growing in the stills categories. As you know Monster is a very important category in the US market. It's approximately 6% of the volume mix. But it represents more of the revenue mix in that market and it's one of those categories that are more developed and that we expect to continue growing jointly with some of the others that I mentioned before.

Sergio Matsumoto: Great. And if I may add one more, you mentioned in your prepared remarks, the alcoholic RTDs in Mexico and there are some initial learnings that you want to expand in scope. Could you elaborate more on that?

Arturo Gutierrez: Yes. In Mexico - and this is part of what Pepe was saying - the opportunity now with better technologies and improvements in our go-to-market models presents this opportunity that we had not captured before and it's leveraged our system to expand into new categories, and also taking advantage of the new relationship we have with the Coca-Cola Company - and this goes both ways - and the ARTD products that are part of the Coke system, and also in the pilots of spirits currently in Mexico and expanding in the future into beer and other categories, but I'll let Pepe elaborate on ARTDs.

Jose Borda: Thanks, and just to give some flavor on this, Sergio, ARTDs are a longer-term play. While the category is still small and we continue expansion in territories and market share. Our sales grew 32% but over a small volume last year. What we aim is to be number one or two player in these categories and be ready for when these kinds of products will explode - the demand explodes - and that's probably not going to happen in the very short term, but it's an important play that we're doing in the future. And as Arturo was mentioning, when we combine the distribution of spirits, with distribution of beer, with distribution of ARTDs, with distribution of mixers in our portfolio, we get all the synergies from this. Jack and Coke is, for example, a good example of this, we just launched last quarter and it is bringing interesting volume and is complementing very well our portfolio. Thanks for your questions, Sergio.

Sergio Matsumoto: Thank you both.

Operator: We'll take our next question from Antonio Hernandez with Barclays.

Antonio Hernandez: Hi, good morning. Thanks for taking my question. Just a quick one, if you could provide more color on the relatively on the performance of sparkling in Mexico and what you expect going forward? And also, well, I mean you already provided some guiding in the US, but anything else that you can mention regarding Mexico performance that would be great. Thanks.

Arturo Gutierrez: Yes. In Mexico, we had a...and thank you, Antonio…we had a slight decline in sparkling categories, but we were cycling significant growth in last year's volume. Cola's continue to grow. We had some decline in flavor categories but we have also to take into account that flavor categories are impacted much more by other categories that are in the stills segment. So, that maybe explains a little bit that performance all in all, so we had again a stable quarter but with a very tough comp from last year.

Antonio Hernandez: Okay. And in terms of expectations going forward for the reminder of the year?

Arturo Gutierrez: So we're still optimistic about expectations going forward. It's not only that we've seen a better trend recently as we said, the month of June was a record month in Mexico. And we expect that trend to continue. But also that we have many initiatives on the market. Ones that are part of our traditional playbook. Like our initiatives for returnables, the glass returnable universal bottle initiative that we mentioned before, but also the expansion of our digital platform, our analytics as it relates to suggested orders, even cooler placements with a better strategy. We have many things in our commercial strategies that sustain our guidance for growth in the second half of the year.

Antonio Hernandez: Okay, perfect. Thanks for the color. Have a nice day.

Arturo Gutierrez: Thank you, Antonio.

Operator: Our next question will come from Felipe Ucros with Scotiabank.

Felipe Ucros: Good morning Arturo, Emilio and team thanks. Thanks for the space for questions. I had a couple of questions on digital in Argentina. You guys did a very good job answering those. But I'll do a follow up on Argentina. Any plans on repatriations from Argentina ahead of the October elections? Just wondering if you have looked at that and what the plans are around it?

And the second one I would like to ask, it’s a little bit more macro, but just wondering with the recent revaluation of the Mexican peso, have you historically seen an impact from the fact that remittances might be lower in peso terms? Has that historically had an impact on consumption? And on the same macro vein, but instead of the negative slant, the positive slant, and also because of your involvement in nearshoring efforts, Arturo, just wondering if you can comment on how that has changed the dynamics in the North of Mexico? Any comments on migration trends or consumption patterns that you may have seen across results? Thank you.

Arturo Gutierrez: Thank you, Felipe. I'll let Emilio talk about Argentina. I'll just address the second part of your question first. And certainly with the strong peso, remittances decline in peso terms. That might have an effect. We don't have a way of particularly measuring that. But we certainly see an offset with all the activity that is going on particularly in North Mexico and some other regions where we operate. The effects are quite visible in terms of investment and you look at the high demand on industrial parks in this region and I think it's unprecedented. So direct foreign investment - foreign direct investment keeps growing as part of this nearshoring and this reallocation of investment around the world. Particularly in Nuevo Leon is the state that is better positioned to bring new investments. As you see many of the ones that have been already announced. There's some estimation by the Chambers of industry that around 80% of the new investments related to nearshoring will eventually land in states where we operate, particularly Nuevo Leon, Coahuila and Chihuahua.

So that is going to be reflected in consumption in the next few years. Because some of those investments have been really announced but not been implemented. But we've already seen some migration of people within Mexico. If you look at some of the construction workers and some of the projects for construction here in Monterrey. Even people that do work for us, they told me that they actually have some of their workers being brought from other parts of the country in the South, which is I think it's a natural phenomenon as the country develops in a not synchronized manner.

So, I'll let Emilio talk about Argentina.

Emilio Marcos: Yes. Very good question. And thank you for that. Well, we've been able to take some resources out several years ago in Argentina, but since then, we have been looking for options. But currently the cost of doing that is really material. So we haven't been able to do that in the past years. However, we've been doing some investments and some options to maintain our purchasing power and also investing in some production lines. So we're taking advantage of that right now. But we keep doing, analyzing options to do that in the near future.

Felipe Ucros: That's very clear on all the questions. Thanks a lot guys and congrats on the results again.

Arturo Gutierrez: Thank you, Felipe.

Operator: Our next question will come from Rodrigo Alcantara with UBS.

Rodrigo Alcantara: Hi, good morning. Thanks for taking my questions.

Very simple ones, actually. What comes to my attention was here on the launch of Flashlyte in Mexico. The electrolyte categories have been growing amazingly in Mexico. Just curious your thoughts on how has been the reception of that new product? And I know it's too early to tell right, but just comment about if and why choose Mexico as the first place to launch that?

And then just a couple of follow-ups on interesting comments you said Arturo, you just said new objectives in terms of margins in the US. Just curious, what would be those objectives in terms of margins? And the other one just said 40% in Ecuador, you represent 40% of your customer share of wallet. Just curious if you can give us the same figure but for Mexico? And how much category has increased that share of wallet that you have in Mexico? Those would be my questions. Thank you very much.

Arturo Gutierrez: Yes, thank you, Rodrigo. Let me talk about first our launch of this new product, which we call Flashlyte in the US and “flash-lee-tey” in Mexico. So let me first clarify that. But it's certainly - it's a tremendous opportunity to develop and grow this subcategory within the hydration segment. And, as you know, this category has been growing and we have the opportunity to actually make it bigger with our reach in the marketplace. This is still too soon to tell, but so far it has exceeded our expectations in the market. So we're optimistic. The formula is great, it's been tested with consumers and it's certainly a winning formulation. And just to mention that we've also launched that category in the US market under The Body Armor umbrella and we believe that this ultra-hydration - as it's called - category will continue to grow as a, again, as a sub-segment.

With respect to margins in the US, Emilio mentioned about the variables that would impact margins and we - now we are optimistic about sustaining our margins as they have been expanding. So our target is to sustain the new margins that we have achieved this year which are improved versus last year marks.

And with respect to share of wallet in Mexico, key products in Mexico would be around 20% to 25% of share wallet, but consider that we have also customers that are our Yomp! customers where we sell other products and that would be an additional 5 to10 points. So in those customers that are the ones we have developed the most. And then we have the opportunity to expand into the alcoholic beverage categories, beer, spirits and others. So the share of wallet can be also expanded, as we develop those opportunities.

Rodrigo Alcantara: You see like in the foreseeable future perhaps you having 40% share of wallet in Mexico as well? Or would that be too aggressive?

Arturo Gutierrez: So I think it's achievable, it would depend on the type of customers. It certainly achievable if we are successful in developing these additional categories.

Jose Borda: Yeah, I think at the end, we're going to get to a share of wallet that gets us into the best position both in terms of influence at the point of sale, financial results, potential growth. So it's something we're working on.

Rodrigo Alcantara: Okay, that's great, thank you very much.

Arturo Gutierrez: Thank you, Rodrigo.

Operator: Our next question will come from Sara Maldonado with Santander.

Sara Maldonado: Hi, everyone, thank you for taking my question. I would like to know about dynamics Mexico in the different channels. Especially what are you seeing in the traditional versus the modern that had a very great growth? Thank you.

Arturo Gutierrez: Sure Sara. I'll turn it over to Pepe to talk about the channel dynamics in Mexico.

Jose Borda: Yes. Thank you, Sara. As I was explaining earlier, all channels are growing in the quarter. We're seeing growth year-to-date in the traditional trade. Also, in the modern trade. The on-premise channel is on the way it's on our way to recovery, as we said, eating and drinking is already recovered but entertainment is still below that used to be.

But modern trade is growing faster than the other channels. Doesn't mean that we're not growing. But it’s growing in terms of outlet and in terms of volume. So we have still, we still have very solid growth in the traditional trade where we have our most extensive portfolio and we're working with refillables with all our increasing our capacities and capabilities.

Sara Maldonado: Thank you very much. And a second question, if I may. During the quarter, especially in May and June which you had more buyback activity. Could you please remember me the program amount? And if you have a policy or what we can expect the rest of the year?

Arturo Gutierrez: So you're talking about share buyback. Okay. I'll turn it over to Emilio to address that.

Emilio Marcos: Okay. Well, thank you, Sara. We've been acting on our share buyback program in the absence of M&A transactions and depending on the market conditions we will continue to seek opportunities to return value to investors through our share buyback program. Always we keep always maintaining our good level of free float in the market, our share buyback program is of MXN8 billion. That's what we have approved.

Sara Maldonado: Thank you very much.

Operator: Our next question will come from Lucas Mussi with Morgan Stanley.

Lucas Mussi: Hi team. Good morning, thanks for taking my question. So my question. The first one is related to the US. If I'm not mistaken, there is a window normally around August for price increases. I was just wondering how you guys thinking about that as we are coming closer to that window? If you guys are planning on taking at least a small price increasing in 2023 to go through 2024 or if you guys have another plan in mind?

And my second question is related to capital allocation. How are you guys thinking about leverage at the moment, considering that you are still looking at M&A and possibilities, but could we see a scenario where you guys don't find an attractive M&A in the short term and we could see more shareholder remuneration, maybe you guys working a little bit more on the leverage side? Or are you guys - or should we assume that you will probably stay around the current levels, even if it takes longer to maybe find a good target or a good transaction on M&A level? Thank you.

Arturo Gutierrez: Thank you, Lucas. With respect to the first part of the US. We're still evaluating, pricing for going forward and for '24. What I can tell you in general that increases will be more conservative in the second half of the year, but also at the same time we see a more positive environment in terms of raw materials. So that will still allow us to sustain our margins. So, but we have not announced specific price increases for this year or for next year, which is what was when it's difficult. With respect to the second part, capital allocation, I will let me Emilio to address that question.

Emilio Marcos: Yes, thank you. Arturo. And thank you, Lucas for your question.

While we keep our same priorities number one, CapEx, we have mentioned that we will increase our CapEx to sales ratio, this year to 6% to 7%. We are track on that because the past two years we reduced that ratio because of the situation. And we have in the past two years also paid extraordinary dividends in the lack of M&A. We just paid ordinary dividend of MXN3.5 per share in April. In our shareholder's general meeting it was approved the Board could authorize any extraordinary dividend, as we did in the past two years if there is no M&A transactions.

So we keep the current EBITDA debt ratio to EBITDA of around 0.6 we think this is a very healthy ratio. So that way we were able to make any inorganic growth if there is a prospect. As you know, we are constantly looking for and evaluating any opportunities. So in the lack of M&A, we are going to keep looking at the share buyback program and maybe extraordinary dividend that's up to the Board, of course.

Arturo Gutierrez: Okay. Thank you, Lucas.

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

Arturo Gutierrez: Yes, thank you. Thank you for your time this morning and also thanks for your continued interest in Arca Continental. We look forward to speaking with you again soon. Enjoy the weekend. Have a great summer.

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

-END-