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Arca Continental 3Q19 Earnings Conference Call Transcript
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Operator: Good day, everyone, and welcome to the Arca Continental conference call. 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: Thanks, Katie. Good morning, everyone. Thanks for joining the senior management team of Arca Continental to review the results of the third quarter and the first nine months of 2019. The earnings release went out this morning. It's available on the company website, as well as the webcast, 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 Chief Financial Officer, 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, as usual, that you refer to the disclaimer and the conditions surrounding those statements, which are in the earnings release for your review. This call is for investor and analysts only, and with that, I'm going to now turn the call over to the CEO, Arturo Gutierrez, to begin the presentation. So please go ahead, Arturo.

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

Our continued focus on strategic priorities enabled us to deliver positive top-line growth with underlying margin expansion.

We are moving swiftly to modernize our platforms and capabilities, while finding new ways of collaborating and leveraging data to improve execution and deploy more agile ways of working.

The digital transformation journey that we embarked on last year sets a clear direction to deploy the programs that create significant value to the current business and enable new business engines.

Moving now to our consolidated results, I am pleased to report that we delivered solid financial and operating performance in the third quarter.

Total consolidated volume grew 2.5% in the third quarter, to reach 587 million-unit cases, and net consolidated revenues reached $42.4 billion pesos, up 6.7% from the same quarter last year.

We are winning at the point of sale with our commercial capabilities, by accelerating the pace of innovation and investment in platforms, advanced analytics and data governance.

On the profitability front, consolidated EBITDA in the quarter rose 11.4% to $8 billion pesos, representing a margin of 18.9%, for an expansion of 80-basis points.

The outstanding results of the quarter reflect our ability to capitalize on our existing capabilities while innovating with new ones.

As we articulated during our Investor Day in August, the essence of our company and our business is connecting and creating shared value with our consumers. We are about building true partnerships with customers, partnerships that are strengthened over time.

In important news during this past quarter, Arca Continental was selected to become part of the Dow Jones Sustainability Index for Latin America, joining other international companies with the best results in environmental, social and corporate governance management.

We are honored to be recognized as part of this index. We are committed to integrating sustainability to an even greater extent into our business strategy.

Now let´s review the performance across our operating groups, beginning with Mexico.

Our beverage business delivered a solid 4.3% total volume growth, on top of a strong 3.4% growth in the same quarter of last year.

This was driven by 2% growth in sparkling beverages, 5.3% in still beverages and 11.3% in personal water. Jug water also posted solid volume growth, up 10.1%.

Our beverage business in Mexico delivered its seventeenth consecutive quarter of net revenue growth, up 9.8% to reach $18.8 billion pesos, as we adjusted prices in line with, or above inflation across our markets.

Average price per case in Mexico - not including jug water- rose 6.4%, reaching 62 pesos, as we continued perfecting execution at the point of sale and refining our ACT commercial model.

Year-to-date, we have installed over 76,000 cold drink units to increase coverage to 90%, one of the highest in the global Coca-Cola system.

EBITDA increased 11.9% for the quarter, to $4.6 billion pesos, representing a margin of 24.4%, an expansion of 50 basis points.

Among the highlights of the quarter, we launched, in conjunction with the Coca-Cola system in Mexico, our first energy drink under the Coke brand, Coca-Cola Energy. This is part of our on-going innovation plan in the sparkling category, particularly in the no-calorie segment.

I will turn now to our operations in South America. This past quarter the region was challenged once again by the volatile macroeconomic environment.

Total volume was down 3% for the quarter, due to declining volume in Argentina and practically flat volume in Peru, which was partially offset by growth in Ecuador.

Total revenues for South America decreased 5.8% in the quarter to $7.9 billion pesos, mainly affected by the currency devaluation in Argentina that offsets revenue growth in Peru and Ecuador.

EBITDA in the second quarter was practically flat, at $1.5 billion pesos, representing a margin of 18.6%.

Our disciplined revenue management initiatives, as well as product innovation and reformulation, should enable us to sustain value share growth and overall profitability. Let me provide you with more color on each of our countries.

In Ecuador, our beverage business posted a solid 4.1% volume growth during the third quarter, driven by growth in colas, personal water and still beverages, up 7.2%, 8.2% and 8.4% respectively.

We continued reinforcing our affordability strategies, actively promoting returnable presentations. We will further expand the mix of these packages with our new 750 milliliter multi-serve format.

Throughout this year, we have placed special efforts in launching new formulas to offer more low and zero - calorie options in sparkling beverages, specifically in core brands such as Sprite, Fanta, Fioravanti and Inca-Kola.

In Tonicorp, our value-added dairy business in Ecuador, we posted a low single-digit sales decline in the quarter.

Despite pressures on domestic demand, our core categories posted low-single digit revenue growth and sustained market share.

The ice cream category outperformed the market, supported by the launch of new products and flavors, as well as a price point affordability plan in the 1-liter “take home” package. Execution at the point of sale and product innovation are the main pillars of our successful commercial strategy.

Shifting gears to our beverage business in Peru, total volume was almost flat. Consumer and business confidence were severely affected by the country’s political uncertainty.

Despite the economic weakness, we expanded our EBITDA margin and sequentially improved profitability in this key business.

We will continue investing in market-focused initiatives, bolstering our returnable base and increasing cooler coverage. Year to date, we have installed over 11,000 cold-drink units.

Political instability may continue undermining investor confidence and weighing on growth in the near term. Nonetheless, solid macroeconomic fundamentals are supportive of Peru's medium-term prospects.

I will conclude my commentary on South America with our business in Argentina, where consumer spending has been negatively impacted by a severe currency devaluation, runaway inflation and high interest rates.

Volume was down 16.1% in the third quarter. Despite the prevailing economic turmoil, we gained both volume and value share across all our categories in sparkling and still beverages, by promoting immediate consumption, returnable packages and driving affordability.

In order to support these initiatives, we accelerated the roll-out of the new 2-liter package in the "Multi-Brand Returnable Bottle" format, which further allows affordability, while optimizing production cost.

We are doubling down on our cost discipline efforts. And we are fully capitalizing on the vertical integration in cane sugar, as we continue to acquire this key input at lower prices compared to the market.

Turning now to our beverage operation in the United States, Coca-Cola Southwest Beverages delivered its tenth consecutive quarter of net revenue growth, up 7.6% in the third quarter to reach $745 million dollars.

Our results continue to make steady progress with a healthy balance of price, mix and volume.

Sales growth was driven by a strong price improvement, up 4.2%. True rate grew 1.5%, cycling last year's July price increase. The remaining 2.7% was mainly due to higher price per case products, such 8-ounce mini cans and 500 milliliter bottles, as well as BodyArmor and Monster.

Volume in the third quarter grew a solid 3.2%, mainly driven by the Supermarket Channel and the recovery of the Convenience Retail channel, and despite the volume loss from Dasani case packs at Sam's Club, which we addressed last quarter.

These outstanding results in both topline and bottom-line performance were due largely to our focus on executing revenue management initiatives to grow our price/mix over time, coupled with a consistent approach to expense control and synergy extraction.

EBITDA increased 13% to $98 million dollars, representing a margin of 13.1% with an expansion of 60 basis points. Importantly, EBITDA growth in the quarter nearly doubled the growth of revenue and came in well above inflation.

The ACT corporate commercial model continues to be the backbone of our execution strategy, as we refine Point-of-Sale execution with a strong focus on consolidating our Fundamentals.

We have begun developing the new generation of go to market models for Large Stores and Small Stores, as part of our customer intimacy project.

Also, as we mentioned on our previous call last quarter, an effective strategy was developed for the On-Premise channel: increasing customer connections via face-to-face interactions and deploying tailored action items to secure the right package/brand assortment and executional elements.

Let me report now on the progress of our synergy program. We are on track to capture $90 million dollars in synergies over a three-year period.

To date, we have completed several initiatives and many projects are already underway to achieve $30 million dollars in 2019.

In closing, we are convinced that we have positive momentum coming out of the third quarter, as we remain focused on accelerating EBITDA growth over revenue.

To conclude with our operations review, let´s move now to our Food and Snacks business.

Wise in the US posted single-digit sales growth in the quarter while expanding value share confirming the sequential recovery.

Once again, growth was mainly driven by the potato chips category as Deep River expanded product coverage in existing customers, such as Stop & Shop with 200 additional locations and new accounts such as Wakefern, Key Foods and King Kullen.

Bokados in Mexico posted sequential high single-digit sales growth for its seventeenth consecutive quarter, driven by growth in extruded chips, popcorn and mixes. We are leveraging the recent geographical expansion into key Central and Western Mexico locations, as we accelerate product and brand innovation while perfecting execution at the point-of-sale.

Inalecsa in Ecuador delivered excellent organic top and bottom-line results, posting mid-single digit sales increase in the quarter, mainly due to growth in potato chips and corn chip categories, as well as pastries.

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

Emilio Marcos: Thank you Arturo, good morning everyone. Thanks for taking the time to review our third quarter performance.

In line with our formula to create sustainable value for our shareholders, Arca Continental's results continue to reflect positive top-line growth thanks to the combination of our pricing initiatives and volume recovery due to better weather conditions and consumption trends in Mexico, the US and Ecuador. Our top-line growth coupled with stable raw material prices and our efficiency improvements continued allowing us to deliver a strong EBITDA increase.

Now moving on to our consolidated results for the third quarter:

Total revenues grew 6.7% in the quarter driven mainly by volume growth and a higher price/mix in our beverage business in Mexico and the U.S., where revenue rose 9.8% and 10.3%, respectively. These positive results were partially offset by a 5.8% decline in South America, explained by the currency devaluation in Argentina. Year to date revenues grew 4.4% explained by Mexico and the U.S. growth of 8.3% and 6.2%, respectively, while South America decreased 5.1%.

Cost of Goods Sold increased 5.7% in the quarter and 4.8% year-to-date. After two quarters with pressure from raw material volatility, this was the first quarter where the prices were stable and showed the benefit of the RGM initiatives we deployed since the beginning of the year. This change in trend contributed 60 basis points of EBITDA margin expansion when compared to the third quarter of 2018.

SG&A expenses increased 5.6% in the quarter and 2.8% year to date, representing 30 basis points of contribution to our EBITDA margin expansion in the quarter. This is the direct result of our commitment to improving efficiencies in all the operations.

Consolidated EBITDA in the quarter reached $8 billion pesos for an increase of 11.4%, representing a margin of 18.9%, for an expansion of 80 basis points. Margin expansion, as I just mentioned, is mainly due to a higher price/mix and a stable raw material prices, combined with a tight operating expense control. Year to date, EBITDA rose to $22.4 billion pesos, reflecting a margin of 18.5%.

Excluding the effect from the adoption of the IFRS 16 accounting standards in the quarter, EBITDA grew 9.4% and had a margin improvement of 50 basis points, an extra 20 basis points versus the first and second quarter.

In the third quarter, Comprehensive Cost of Financing was down 41%, mainly due to a $139 million peso benefit from the monetary position in our Argentinian operations and an exchange rate gain of $34 million compared to last year's exchange rate loss of $272 million pesos.

Net income in the third quarter reached $2.7 billion for an increase of 15.5% versus last year, which is directly attributed to a 6.9% increase in operating income, plus a lower Comprehensive Cost of Financing. Year to date, net income increased 13.8% to $7.3 billion pesos, reflecting a margin of 6%, also due to an increase in Operating income of 4.7% and lower Comprehensive Cost of Financing.

As of September 30, 2019, we had an accumulated debt of $55 billion pesos and a cash position of $21 billion pesos, for a leverage ratio of 1.17 times. We should soon reach a 1 time net debt to EBITDA ratio, unless there is any M&A transaction.

The operating cash flow reached $20.1 billion pesos year to date, deployed mainly for CAPEX and dividends. The CAPEX investment reached $7.6 billion pesos, around 20% below of year to date initial estimates, as one of our best practice is to adjust the investment in line with the topline performance in each operation. As always, we are and will be conservative in the use of our cash flow.

For the last part of the year, we will continue enhancing our commercial capabilities with innovation at the point of sale. These capabilities should be combined with a balanced portfolio of products, an effective price-pack architecture plan and endless pursuit of operational improvements to fully capture value creation to our shareholders in 2019.

And now, I'll turn it back to Arturo.

Arturo Gutierrez: Thank you Emilio. With the third quarter behind us, we see the challenging global environment continuing, but we remain committed to the mid-term targets that we outlined at our Investor Day last August.

We will continue to align our efforts to our core principles of being Customer Centric, Results Oriented, Transparent, Innovation Driven, and People Focused.

And we will strengthen our leadership by combining our robust processes with new technologies and digital innovation, a combination that creates new competitive advantages for our Company.

Our focus is on serving our customers with passion and excellence. We have a trust-based relationship with those customers and other stakeholders. We have the best brands, the processes and experience, and more importantly, the commitment of more than 60 thousand associates to strengthen Arca Continental's performance for now and for tomorrow.

We are convinced that we have growth potential in our current markets. We can integrate new businesses opportunities and create value by rolling out our business model.

Thank you for your continued support. Operator, we are ready for questions.

Operator: Thank you, sir. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. As a reminder, due to high interest and time, please limit yourself to one question. We'll pause for just a moment to allow everyone the opportunity to signal for questions. Our first question will come from Marcella Recchia with Credit Suisse.

Marcella Recchia: Hi guys. Thank you for taking my questions. First one about U.S. Some of the initiatives you have been taking, talking about for quite some time, both in terms of topline and margin seem that this quarter they had more tangible results, is there any one area that you would highlight as contributing more to that inflection point? And do you think that this trend remains in the future? I wait for the answer to take my second question.

Arturo Gutierrez: Thank you, Marcella. Yes, as we have explained, in the U.S. market, we've had several initiatives. The few that we believe are pretty transformational - I will mention three of those, and there are other things that we're working on as part of our synergy plan. But one is our revenue management strategy in the U.S. As we've committed to, we want to increase prices in line or above with inflation. And that is certainly a challenge in the U.S., because we need to act in coordination with the rest of the system in most of our channels. So it's not only about having the will, but it's certainly about having the right processes in place and the right tools, and also being very effective in the management of discounts as well. It's not only about prices, it's about revenue per case in general. So that's one important aspect. A second aspect has been our culture of execution in the market, which is called Fundamentals. And this is about tracking all of the executional elements at the outlet and having complete visibility from the top and cascading down all the way to the front line, and having the necessary tools for the front line associates to know exactly where they need to focus on, and have all the action items also flowing so that they can, again, focus on the right things in the marketplace.

A third aspect that I will highlight is our new go-to-market approach in the U.S. And this is something I believe is not yet delivered full results, but we've been rolling out our new, what we call the service models, mostly for the on-premise market. And if you look at the operational indicators, so far, we have doubled the number of face-to-face visits. We increased our points of interaction with our customer. The number of sales visits versus previous year. And very importantly, this has been done mostly by reallocating resources, not by investing or spending more as part of our cost to serve, but actually by just reallocating resources for things that we believe did not bring significant value to things that we are convinced are the ones that create a better relationship, a better connection with customers, ultimately better execution at the store, availability of products, our Picture of Success. Those are the metrics that we are tracking day by day now in the U.S. That is aside from our synergy program, and that also is contributing to improve our profitability. Overall, we have some of the synergy projects that are on the revenue space, and some are on the cost and savings space. But they both are on track, and they are contributing to have better results quarter by quarter.

Marcella Recchia: Perfect. Thank you. My second question is about Mexico. We saw the volumes very strong this quarter. Can you comment on the sustainability of that in light of the macroeconomic situation in Mexico, and any potential update in the tax regime for the next year?

Arturo Gutierrez: Yeah, well, in Mexico the market continues to grow. I mean, consumer confidence is still strong, and we have many elements on the consumer side that remain strong. Remittances remain upbeat in Mexico, although the economy might not be growing much, we still see a healthy demand in the market. That is aside from the opportunities that we identify, and we continue to do things better in the market. It seems like that Mexico might be one of those business units where we've matured and captured many of the opportunities, but we still find things that we need to do better. One example is our out-of-stocks project, very important to roll that out, and using advanced analytics to reduce out-of-stocks in the traditional trade channel. I will turn it over to Pepe Borda, if he wants to add to that. But before, just let me mention about Texas. You asked about the situation and the taxes in Mexico. First, just to put things in context, I think everybody knows that taxes have proved ineffective as a solution to problems of public health, and resources obtained really do not have a direct allocation to health programs. So we have fulfilled as a company our commitment to be part of the solution by reducing our footprint of calories in recent years. We are offering a balanced portfolio. We have more than 40 percent of our portfolio in low or no calorie options. And we promote physical activation. In this case, the tax was actually an adjustment with inflation. We're going to be adding the inflation of 2018 and whatever results for 2019, and that updating of the original tax would be done on a yearly basis instead of the original regulation. And this is a tax that is transferred to the consumer. We've expressed over and over that we believe that this is a tax that is ultimately paid by the lowest economic segment of the population, so it doesn't make a lot of sense from that point of view either. So with that, I'll turn it over to Pepe if he wants to make a few more remarks about the Mexican market.

Jose Pepe Borda: Thank you, Arturo. And thank you very much for the question. I think that many things that we are doing in Mexico, that are starting to bring consistent results, starting with what probably I would say that the basic ones, the things that we've been always doing, like enhancing refillables and really betting on affordability for our customers, continue expanding our cooler base despite having an important cooler base already, we still find opportunities in which we can expand our portfolio and offer cold product to our consumers. I would say another important thing is we have a good set of new product launches, that each of those might not be big products that by themselves, but when you add all of them, they bring up some important volumes, like Coca-Cola Coffee, Coca-Cola Energy, increasing distribution of Coca-Cola without sugar, innovating infused tea, Isolite and all those. So it's an important enhancement of our portfolio comes together with these. And last, I would also like to focus on our direct to consumer business, that is also growing. It will have a steady growth of 25 percent year to date, with consistent expansion of our portfolio, especially dairy and other still beverages. So it's a combination of many of those things.

Marcella Recchia: Great. Thank you for the color.

Arturo Gutierrez: Thank you, Marcella.

Operator: Thank you. Once again, as a reminder, please press star one at this time if you would like to ask a question. Our next question comes from Luis Miranda with Santander.

Luis Miranda: Yes, hi guys. Good morning. Thanks for taking my question. I have a follow-up to Pepe's comment on innovation, and yes, when you take a look at the recent launches and innovation, and you mentioned the coffee, energy, low sugar, reduced sugar. Can we get an idea of the rate of growth that you're having in these products? I know it's a very low base, and if it has come - relative material size, or well, how much of the portfolio is becoming innovations? And the second question is with regards to your outlook for raw materials entering into the end of the year or beginning of 2020. Thank you.

Arturo Gutierrez: Thank you, Luis. I'll let Pepe answer the first part of the question, and maybe Emilio can address the second part. And I'm just going to say about our growth rate of these products, it's very important to understand that although they might be a small part of the mix, they might a higher part of the growth. And that's one thing that we look at many times. We have to know what is providing the growth, and we know that sparkling categories may not be growing as much, but they continue grow, even in the most mature markets like the U.S., you see brand Coca-Cola continues to grow in our territory, but certainly growth is mostly driven by these other categories. I think the challenge for us as a bottler is being more effective in understanding and dealing with the complexity of granular growth. And most of what we're doing in our go-to-market approach, in our ACT processes, is finding new ways to make sure that we are effective in how we execute and how we manage all the processes related to the smaller categories that might not be as exciting, if you look at them from a point of view of the mix of total volume, but they are certainly exciting when you look at the growth, and think about in Mexico, not only these new launches, but think about dairy, and think about energy as a whole. So these are great opportunities, but I'll let Pepe expand a bit on that.

Jose Pepe Borda: Thanks, Arturo. And thank you for your question, Luis. Just to give you some examples. Some of these launches don't have a comparative base, because as Arturo said, they are pretty small. But I can tell you that low and no sugar products are growing around 3 percent.

And for example, when we some categories like the dairy category, we're growing around 19 percent. In energy, we're growing around 11 percent, as isotonics, where we have PowerAde, together with ISOLITE, we are growing at 19 percent in the last quarter, and 11 percent for the year to date. So as Arturo said, these products are small by themselves, but they make a big component of our growth. And most important than that, many of these are products that have higher contribution. For example, when we are selling Coke Coffee, we're selling it at a 25 percent premium price versus original Coke. Coca-Cola Energy is selling at 100 percent premium price versus original Coke. So these products not only give important volume and revenue contribution, but they also give an important profit contribution.

Arturo Gutierrez: So turning to your second part of your question, Emilio, can you give us some insight on the raw material pricing?

Emilio Marcos: Sure. Thank you for your question, Luis. For the end of the year, we should expect similar prices than the third quarter which are lower than last year. As we have said, we have a better cooperation on raw material prices the second versus the first half of this year. I think with the exception of sugar in Ecuador, that we expect an increase for the end of the year, only in Ecuador, for sugar. And talking about 2020, I think that in general, I would say that we see stable raw material prices. Again, only we're expecting some increases in sweeteners in line with inflation, but we have already hedged some of the prices for next year. For example, in U.S., we have hedged 50 percent of our high fructose needs at a little bit higher price in line with increasing inflation in the U.S. for high fructose. In Mexico and Argentina, in sugar, as you know, we're vertically integrated, so we should be able to maintain stable prices on sugar in Mexico and Argentina for 2020. And in Peru, we already hedged 40 percent of our needs for the first half of 2020 at better prices than 2019. And in U.S., aluminum, as you know, is a very important raw material, we have already hedged 65 percent of our needs in aluminum for 2020 at a lower price than 2019. So that will be a benefit for next year in U.S.

Arturo Gutierrez: Luis, that is the price aluminum, the LME component price.

Emilio Marcos: That's correct.

Arturo Gutierrez: We also expect the midwest premium to maybe be lower in 2020 as compared to 2019. We know that that is artificially very high now, so we expect that may be to improve, at least marginally for next year.

Luis Miranda: No, perfect. That was very clear. And just for clarification, in aluminum was 60 percent hedged?

Arturo Gutierrez: It's actually 65, I believe for -

Emilio Marcos: Sixty-five percent.

Arturo Gutierrez: - next year, yes.

Luis Miranda: Okay, no, perfect. Thank you very much. It was very clear, guys. Thank you.

Arturo Gutierrez: Thank you, Luis.

Operator: Thank you. Our next question comes from Felipe Ucros with Scotia Bank.

Felipe Ucros: Yes, good morning, Arturo and team. Thanks for the space for questions. Actually, Luis just asked my question on the midwest premium. So I wanted to follow up on another issue that I wanted to ask about, which is what I've noticed is the Coca-Cola System being a little more open to the bottlers distributing alcoholic beverages. And slowly but surely, we've seen players experimenting with it, Andina signed a couple of contracts for Pisco and with *Diageo* in Chile, and KOF just disclosed in the previous call this morning, that they're also exploring distributing spirits in Brazil and trying to test other things in other locations. So I was wondering if you're looking at this, and how you're exploring it.

Arturo Gutierrez: Yes, thank you, Filipe. Let me just elaborate a little bit, because you wanted to ask about midwest premium. I didn't go into a lot of detail. I'd like to add there that that component of the aluminum, as I said, is very high. It's been above the $400 per ton level the last year and a half or two, ever since the duties for aluminum were imposed in the U.S. Those duties were reversed for Canada, and this is a logistics component of the price. So it should not be at that level. It is completely absurd that there is a duty imposed on the logistic price when there is no duty in the logistic operation of aluminum. So we are not discounting that that is going to be solved. So we're discounting a marginal improvement for next year. But that is certainly an upside for our business, because that was at the $200 per ton level in the previous years, and now it's at the $400 per ton level. So if you think about that, that's certainly an upside when that might be resolved. And this is something that's been discussed by the industry as a whole in the U.S. It just wanted to point that out. With respect to -

Felipe Ucros: (Overlapping). That's very clear, Arturo. I don't know if I could do a follow up, but do you know why it hasn't been arbitraged down? I mean, in theory, you should be able to -

Arturo Gutierrez: Yeah, that's a great question. That's a question I'm making a bet that hundreds of smelters of aluminum in the U.S. are just wondering how can they be so coordinated, but this is something that we didn't address the DOJ in the U.S. It's a big deal. Brewers also are questioning. So that's something that, I guess, at some point, it will be solved. But we're not, again - we're conservatively not discounting that that is the case. But it doesn't make any sense. That's the answer.

Felipe Ucros: Okay, that's very helpful. Thanks.

Arturo Gutierrez: But then going to the question about the KO System being open to other products, yes, we've seen a different perspective and approach by The Coca-Cola Company on these types of initiatives. As I've said, the company is more flexible. It's more pragmatic to see how we can synergize and make the system more profitable as a whole. And you know that in Argentina, we've been distributing beer for quite a long time. Ever since we acquired those franchises, we've been distributing beer in the red truck in some of the territories in Argentina successfully and profitably. So I think the answer is that there is not one single model that would work for all the markets. It depends on the structure of the market and the particular relationship that you may have with a certain brand. We are now exploring in Argentina, where we want to increase our drop size under the current economic situation of that country, to expand the portfolio of these products to other similar products like cider, which is consumed a lot in Argentina. So we've launched that just recently, and we will continue to explore those opportunities, taking advantage of both, that the Coca-Cola Company is more pragmatic about this, and second, that we have a very good relationship and dialog with them about these possibilities and opportunities.

Felipe Ucros: Great. Thanks, and Arturo if I could do a follow-up on this, when you talk about different opportunities in different markets, what are the most important factors for you? Obviously when you require a license to distribute alcohol, and when you don't matters, but what other factors kind of -

Arturo Gutierrez: I can think of another factor is many times the bandwidth of your system and the opportunities that you can capture with your own portfolio of stills and dairy and the different brands that we might be distributing and managing in a particular market. So obviously, our first option would be to expand as a nonalcoholic beverage company as much as possible. If the economic situation in Argentina now results in a reduced demand is when these things could make sense. But we would be looking, in the case of Mexico, first to capture the opportunities that we have, for example, in dairy, which is a great upside there for that segment.

Felipe Ucros: Okay, very clear. Thanks so much.

Arturo Gutierrez: Thank you, Filipe.

Operator: Thank you. Again as a reminder, if you would like to ask a question, please press star one now. Again, that is star one if you would like to ask a question. Our next question comes from Miguel Tortolero with GBM.

Miguel Tortolero: Hi, good morning, everyone. Thanks for the space. Regarding the labeling initiative in Mexico, we would like to hear your thoughts on what effect would you expect from this initiative, and what sort of internal initiative you could be implementing to meet the potential impact? Is there any lesson you could take from other countries that have already faced this situation? And the second one, on the sugar side, do you think there is any sort of impact that we should expect from the recent news on the sugar trade agreement between Mexico and U.S. that could bring some volatility to local prices? Thank you.

Arturo Gutierrez: Thank you, Miguel. Let me talk about labeling regulation in Mexico. First, we should say it's very important to know that we, as a beverage and as a food company as well, we are in favor of industry transparency. For many years, we have been very active in informing our consumers clearly about the content in our products in all the markets. We pioneered with GDA's before any regulation in Mexico, and we also reduced our footprint for calories, as I said and the size of our portion, regardless of regulation. So now, the general health bill is approved by the

Senate, but it will take some time until it becomes specific regulation in Mexico. We are now in the stage of consultations and analysis of - there's a proposal of a norm that was published, but to have the final official norm, there is a period of consultation, and then after that, there is a period of implementation as well. And as you said, we have the lessons from other countries like Ecuador or like Peru recently, and we are actively participating in this process, to have mostly a framework for labeling that is based on science, that is comparable to what's worked internationally. And the idea is to really help the consumer to make informed decisions. And in our case, to create incentives for reformulation of our products. And that is what we've been doing for several years. So we're not concerned, to the extent that we've been very transparent over the years on informing the amount of calories that our beverages have. And also, we are better prepared because we have made a lot of progress in reformulating products into low calorie or no calorie, with great improvements in taste. As you know, the Coca-Cola without sugar is a great product in terms of taste as compared to the original Coke, so now, as I said, more than 40 percent of our portfolio is zero calorie or low calorie, and almost 20 percent of our volume in Mexico is in non or low calorie presentations. So even though we're expecting the details of the new labeling regulation, an important portion of our products would be free of those seals or maybe have just one seal. So this is not a concern of a great magnitude, but certainly there are things that can be, as I said, incentivized to improve our portfolio. With respect to the sugar, Emilio explained the sweetener environment for the future and we expect that to be fairly stable. As you know, we also integrated into sugar in Mexico, and we acquired fructose from the U.S. And we anticipate that to continue to be fairly stable, as Emilio described.

Miguel Tortolero: Great, that's good. Thank you.

Arturo Gutierrez: Thank you, Miguel.

Operator: Thank you. As a final reminder, please press star one at this time if you would like to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. Again, that is star one if you would like to ask a question. Our next question comes from Fernando Olvera with Bank of America.

Fernando Olvera: Hi, good morning. Thanks for taking my question. I just have one, and it's related to Ecuador. I was just curious if you faced any difficulty from the recent process, and this process could affect your results for the third quarter, and also, if it's possible, can you share what is your outlook on consumption in Ecuador for the next 12-15 months? Thank you.

Arturo Gutierrez: Sure. How are you, Fernando? Good to talk to you. Well, as you've seen, Ecuador has faced a difficult situation in the last few weeks. There were social protests about two weeks ago. And we are now in this recovery phase of the effects from that situation. We were one of the first consumer products companies to respond, delivering our products. There are many examples in our team of our commitment to serving customers in those very, very difficult situations. Our operation was back to normal in a short period of time after all these occurred. So there is not a long-term or permanent effect from what occurred. What is going to happen now is that there is a new package of measures from the government, because they reversed some of the things that they had decided before. So there is some impact there that we are evaluating, mostly increase in tax from 18 to 20 cents. It's something that has been proposed, and it's part of that package. And this is again something that would need to be translated into adjustments in our pricing in Ecuador and might have some effect for next year. But in terms of our current operation, things are back to normal as we distribute our products in that market. So our outlook for the short term is that we expect growth to resume, basically because we are doing a number of things that are very important for growth in that market. I would say that the most important one would be our focus on returnable packaging, which is, as we've done many times, this is the flexibility of having the affordability and at the same time, growing profitably. We also are improving distribution by adding new routes to capture new customers and improve the level of service. I think this is the market where we have the biggest opportunity from that point of view of reaching more customers. Ecuador is a very fragmented market. There are many, many small customers, but they are still important to us, and we know how to get to them in a profitable way. So we are adding more than 16,000 new customers by the end of the year. So I think those two are some of the basic things that we're doing and that will allow us to continue on the path of growth in that market.

Fernando Olvera: Great, thank you so much.

Arturo Gutierrez: Thank you, Fernando.

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

Alvaro Garcia: Hi, thanks for the call. Congrats on the results. And thanks for the space for questions. My question is on snacks. We saw much better dynamism in Bokados specifically. You mentioned better production and distribution strategies. I was wondering how you feel about the construct of that business today, and whether or not we should extrapolate this double-digit EBITDA growth sort of going forward in the next couple of quarters? That's my question. Thank you.

Arturo Gutierrez: Thank you, Alvaro. Let me tell you about what we're doing in snacks in our markets. Well, Inalesca is a more stable business unit for us in snacks. But in Bokados, this is where we're trying to expand our coverage in Mexico, to become more of a national brand. We're accelerating growth in the traditional channel and increasing our distribution in new territories. So that casts an impact on our profitability in the short term. But we know that these are the things that we need to do at the same time that we invest in our brands and in the construction for brands and also in the innovation of products.

We're also looking to maximize productivity in our facilities in Queretaro, which as you know, is in the center part of Mexico. And that allows us to have more scale to go to the market in Mexico City, which is the largest market, and increase our footprint in that part and the south region of Mexico, where we have a very small presence. So we're trying to gain that scale, and that requires having more distribution centers and also having more routes that have a natural curve until they mature, and that impacts sometimes the profitability. That's what we expect going forward. But we are excited about growth in our products. I think we have a good portfolio of products and the good opportunity to have a stronger footprint as a national brand in Mexico. And in the case of the U.S., if I may comment, the situation is different in the U.S. We're focusing mostly in the markets where we are most profitable. We have a very good presence in terms of distribution in the northeast of the U.S. And I would say that in the east coast as well, so we continue to create a wider distribution network, particularly in that territory, and leverage Deep River, which is a brand that has a lot of traction in the market, and as those new brands in our portfolio grow, we have a much more balanced business between the traditional brands and the better-for-you products as well. And we are rationalizing a portfolio of SKU's to ensure the profitability of the business. So as a result of that, you can see that we have a much improved business in snacks, both in Mexico and the U.S.

Alvaro Garcia: That's very clear. Thank you, Arturo.

Arturo Gutierrez: Thank you, Alvaro.

Operator: Thank you. At this time, I am showing no further questions in the queue. I would now like to turn the call back over to Arturo Gutierrez for closing remarks.

Arturo Gutierrez: Thank you. And as always, we thank you all for your interest and investment in our company. We look forward to speaking with you again soon. Have a great day.

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

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