

Company Name: Coca-Cola Femsa
Company Ticker: KOFUBL MM
Date: 2022-02-25
Event Description: Y 2021 Earnings Call

Market Cap: 237709.126127915
Current PX: 113.1500015258789
YTD Change(\$): 1.45
YTD Change(%): 1.298

Bloomberg Estimates - EPS
Current Quarter: 1.518
Current Year: 6.969
Bloomberg Estimates - Sales
Current Quarter: 45432.857
Current Year: 202923.529

Y 2021 Earnings Call

Company Participants

- John Santa Maria, Chief Executive Officer
- Constantino Spas Montesinos, Chief Financial Officer
- Jorge Collazo Pereda, Head of Investor Relations.

Other Participants

- Alvaro Garcia, Analyst
- Carlos Laboy, Analyst
- Lucas Ferreira, Analyst
- Antonio Hernandez Velez L., Analyst
- Marcella Recchia, Analyst
- Ricardo Alves, Analyst
- Sergio Matsumoto, Analyst

Presentation

Operator

Good morning, everyone, and welcome to Coca-Cola FEMSA's Fourth Quarter 2021 Conference Call. As a reminder, today's conference is being recorded, and all participants are in a listen-only mode. At the request of the company, we will open the conference up for question and answers after the presentation.

During this conference call, Management may discuss certain forward-looking statements concerning Coca-Cola FEMSA's future performance and should be considered as a good faith estimates made by the Company. These forward-looking statements reflect Management's expectations and are based on currently available data. Actual results are subject to future events and uncertainties, which can materially impact the Company's actual performance.

At this time, I will now turn the conference over to Mr. John Santa Maria, Coca-Cola FEMSA's Chief Executive Officer. Please go ahead, Mr. Santa Maria.

John Santa Maria, Chief Executive Officer

Good morning, everyone. Welcome to our fourth quarter and full year 2021 earnings conference call. We appreciate you joining us today and we hope you and your families are safe and well. I am joined on today's call by Constantino Spas, our Chief Financial Officer; and as always, Jorge Collazo, our Head of Investor Relations.

I am encouraged by our results and the progress we made throughout the year. Although 2021 presented challenges, our results highlights our business's resilience and our ability to deliver accelerated results across all of our strategic fronts. We strengthened partnerships, we emerged stronger from the pandemic and closed the year with an escalating momentum by delivering solid top and bottom line growth, coupled with share gains across our territories.

During our call today, I will expand on our fourth quarter results and provide you with an operating update with a special focus on key markets of Mexico, Colombia and Guatemala. Then, I will discuss our vision for 2022, a rollout of our omnichannel digital initiatives and our commitment to sustainability, underscored by the recent announcement of

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our new PET recycling facility in Mexico.

Before we take your actions -- questions, Constantino will walk you through our division's performance, profitability initiatives and capital allocation including our recent acquisition of CVI in Brazil and our CapEx plans for 2022.

Moving on to discuss our consolidated results. Our volumes for the fourth quarter increased 5.4% year-on-year and 6.9% as compared to our 2019 baseline. This growth was driven mainly by significantly accelerated volume growth of 6% year-on-year in Mexico, coupled with the continuous recovery of most of our markets. Like the third quarter, we continue to see a remarkable volume performance in Colombia, Central America and Argentina. For the quarter, all of our categories posted volume growth as compared with the previous year. Our core sparkling beverage categories grew 3.9%, driven by 2.9% growth of brand Coca-Cola, and 7.7% growth in flavors. Notably, our non-carbonated beverages and personal water beverage categories grew 16% and 23%, respectively, with double-digit growth in the vast majority of our territories.

As compared to our 2019 baseline, our sparkling beverage category grew 6.2%, driven by growth in all of our territories that resulted in a solid 5.3% growth of brand Coca-Cola and 9.8% growth in flavors. Across most of our territories and despite the rapid spread of Omicron, towards the end of the quarter, the on-premise channel volumes accelerated, while the modern trade grew ahead of our forecast and the traditional trade continue to post healthy and resilient performance. Importantly, our single-serve mix remained a significant tailwind. To give you a sense in Mexico, our single-serve mix recovered an additional 2 percentage points as compared to 2020, reaching 32%, and it's only 1 percentage point below our 2019 baseline.

For the quarter, our consolidated total revenues grew acceleratedly increasing 8.5% year-on-year. This growth was driven by our volume performance, coupled with our pricing initiatives on favorable price mix effects. These effects were partially offset by our transition of Heineken's beer portfolio in Brazil, coupled with an unfavorable currency translation effect into Mexican pesos. Notably, excluding unfavorable currency translation effects, our comparable total revenues increased 10.5% year-on-year, and when compared with our fourth quarter 2019 baseline, our consolidated revenues increased by 3%. Despite the volatile supply chain and raw material environment, our gross profit increased a solid 9.3%, and our gross profit margin expanded by 30 basis points, driven mainly by our pricing initiatives coupled with favorable raw material hedging strategies and efficiencies achieved across our operations.

Additionally, as discussed during our previous earnings call, we resumed the recognition of tax credits on the concentrate purchases from Manaus Free Trade Zone in Brazil as of the second quarter, which has also supported our gross margin performance as compared with the previous years. Our operating income growth accelerated sequentially, increasing 7.6% as compared with 2020. Notably, it is a 21 -- a 22% increase versus the fourth quarter of 2019. Our operating cash flow for the quarter increased 6.5% year-over-year, resulting in a resilient operating cash flow margin of 20%.

Finally, our controlling net income increased to solid 82.8% to reach MXN5.8 billion, driven mainly by a one-time favorable effect on our consolidated tax rate, mainly related to the recognition of a favorable deferred tax credit in Brazil, coupled with the decrease in our comprehensive financing results.

It is important to highlight and summarize our full-year 2021 results. Consolidated volumes increased 5.3% year-on-year, improving 2.6% compared to our 2019 baseline. Consolidated revenues grew 6.1% year-on-year, surpassing our 2019 baseline. Finally, operating income grew 8.6% year-on-year, increasing 7.8% as compared to 2019. Notably, driven by our focus on improving returns, 2021 marked the fourth consecutive year of growth in Coca-Cola FEMSA's return on invested capital, which is now in the double-digit range.

We will now take a moment to discuss our operating highlights and the positive momentum of key markets, Mexico, Colombia and Guatemala. Driven by our commercial initiatives and overall recovering environment, our Mexico operating -- operations volume for the quarter increased 6% year-on-year, while improving 3% compared to 2019. Notably, we saw sequential improvements month after month reaching a banner mark in December. It was encouraging to see consistent volume improvement throughout the quarter, both across categories and across the different regions in which we operate. Average daily sales improved consistently from the Bahia region to the South-east region, including

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Mexico City and the Gulf of Mexico. It is also important to underscore the results of the new formula and visual identity of Coca-Cola sin Azucar in Mexico which grew double-digits as compared to 2020 and high single-digits as compared to 2019.

Our affordability played, and will continue to play, an important role in our strategy. For this reason we continue leveraging our broad portfolio and price pack architecture to provide our consumers with the right alternative at the right price whether their choice is single-serve, multi-serve -- multi-packs, refillable multi-packs or one-way options. To give you a sense of the importance of returnable options today, more than 40% of our volume in Mexico is in refillable presentations. In summary, Mexico, closed the year on a high note and made important advances across all our strategic priorities, increasing execution, bolstering affordability and advancing on both, the B2B omnichannel and D2C direct-to-consumer home delivery fronts. We are convinced that our Mexico operation has the right team, capabilities, and strategy to continue its positive momentum in 2022 and beyond.

Moving on Colombia, our volumes for the quarter grew 16.2% year-on-year and 16.5% compared with the same period in 2019. We continue to focus on the fundamentals for success, strengthening our portfolio, offering affordability and delivering outstanding market execution. This mindset has enabled us to recover our volumes in single-serve mix while increasing our number of clients compared to pre-pandemic levels. To give you a sense, during the year we served more than 35,000 clients, an increase of more than 8% to our client base and achieved historic product availability.

Importantly, consumer-centric portfolio innovation has increased our relevance in non-carbonated beverage categories and water, while the rollout of our Universal Bottle, which is growing double-digits, is giving us a strength and capability to provide affordability to our consumers. This bottle gives us the capability to provide affordability, not only in brand Coca-Cola but also in flavors and non-carbonated beverages. As a result, we are growing ahead of the industry, strengthening our competitive position by gaining share across categories and channels. I am encouraged by Colombia's operating results. We have a clear roadmap to continue this positive momentum into 2022 and beyond in leveraging the fundamentals of affordability, increased coverage and availability, while accelerating our portfolio innovation and the rollout of our business-to-business omnichannel platform.

Finally, our Guatemala operation continued its consistent three year double-digit growth. For the fourth quarter, our volume increased 14.1% compared with 2020, and an impressive 27% compared with 2019. This growth resulted from our focus on delivering the right commercial capabilities while strengthening our portfolio across categories and channels. Notably, our core sparkling beverage category and the traditional trade channel have largely driven this remarkable growth story. Looking ahead, we continue to see great opportunities in Guatemala to capture new clients, reduce out of stocks and increased cooler coverage, while continuing to digitalize our operation from back office solutions to our commercial omnichannel platforms.

In summary, we are convinced that our positive momentum reflects the relentless work and commitment of our team and underscores our understanding -- outstanding capabilities to execute and deliver against all of our strategic priorities.

While Coca-Cola FEMSA's strategic achievements for the year were many, no milestone is as significant as our enhanced cooperation framework with The Coca-Cola Company. This framework ensures long-term alignment of our partnership, growth plans and strategy, enabling us to not only continue building a winning customer centric portfolio but also explore new multi category opportunities across our markets, while developing strategic digital initiatives. This achievement is the cornerstone of our ambitious -- of our ambitions and priorities for 2022 and beyond as we continue to position Coca-Cola FEMSA for the next wave of profitable, sustainable growth.

Consistent with our vision, we continue adapting and reshaping our company to thrive in the new global business environment. We are accelerating the build up of our customer centric omnichannel multi-category commercial platform. To give you a sense, we now have approximately 300,000 active monthly purchases on our proprietary omnichannel B2B platform, up over two-fold from a year ago. Also, we achieved the historical expansion of our direct-to-consumer home delivery routes in Mexico from approximately 800 routes to 1,200 routes, reaching close to 600,000 households, while beginning the digital transformation of these routes as we speak. Notably, digital purchases in Coca-Cola FEMSA now represent over 6% of our total orders, generating more than \$350 million of sales or close to

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95 million unit cases. This marks triple-digit growth in our digital orders, volumes and revenues compared to 2022 -- sorry 2020.

Moreover, as we explore new multi-category opportunities across our markets, we are rolling out pilot programs to test the distribution of complementary categories such as leading spirits brands and leading consumer products in certain markets. Although, most of these pilot programs are in early days, the results during the fourth quarter are encouraging. We are not only gathering valuable learnings and insights but also increasing coverages, repurchase and revenue.

As part of our vision of becoming the world's preferred and more sustainable commercial ecosystem, I must underscore our company's commitment to sustainable development. Consistent with this ambition, on January 25th we broke ground on a new recycling plant in Tabasco, Mexico, together with ALPLA, a global leader in the development and production of packaging solutions. The ultimate goal of the state of the art plant, which will have a co-investment of more than \$60 million to accelerate the transition to a circular economy. Closed, the PET plastic recycling loop strengthen the collection and recycling chain and benefit the environment and the communities in Mexico South and South-east regions. The plant is expected to start operation during the first quarter of 2023.

Finally, we are honored to be included for the second consecutive year in the S&P Global Sustainability Yearbook 2022. From more than 7,000 companies evaluated worldwide, we stand out as the only Mexican beverage company included in the Yearbook, thanks to our positive performance on S&P's Corporate Sustainability Assessment. This recognition only confirms that we are on the right path, but more importantly, it strengthens our commitment to working towards a more sustainable future.

With that, I will now hand the call over to Constantino.

Constantino Spas Montesinos, Chief Financial Officer

Thank you, John, and good morning everyone. I will now expand on our division's fourth quarter results. In Mexico, our volumes increased 6% while our total revenues increased to 12.2%, driven by pricing initiatives and a favorable price-mix. In Central America, our operations once again delivered a strong volume performance with all of our markets growing double-digits, which, combined with the revenue growth management initiatives, enabled us to achieve 20.8% revenue growth compared with the fourth quarter of 2020. As a result of this, our quarterly revenues increased 13.7% in Mexico and Central America, and 13% compared to the same period of 2019.

On the profitability front, our gross profit increased 9.1%, which resulted in a gross profit margin of 48.4% against a very tough comparable base. This margin contraction was driven mainly by increases in commodity prices and higher concentrate costs in Mexico. Importantly, these effects were mitigated by successful raw material hedging strategy. Although we continue to see normalization of certain operating expenses during the quarter, such as labor and maintenance, our teams were able to double down on additional savings and efficiencies in order to offset the effect of this normalization.

During 2022, we expect to protect our profitability in the division by pricing aligned with or ahead of inflation across our markets, while maintaining a disciplined hedging strategy and a permanent savings and efficiencies culture. As we mentioned in our previous conference call, despite the dynamic raw material and supply chain environment that's affecting industries worldwide, we are maintaining a high profitability base in our Mexico and Central American division. Notably, our full year operating cash flow margin closed at 22.4%, which is a 180 basis points ahead over 2019 baseline margin, a remarkable achievement for our teams in the division.

Now, moving on to South America, This division delivered 3% volume growth as compared to 2020, and is 9.6% ahead over 2019 baseline. Double-digit volume growth in Colombia and mid to high single-digit growth in Argentina and Uruguay, partially offset by the normalization of volume growth in Brazil, which was affected by very challenging weather during the quarter, our revenues for the division grew 2% and our revenue management initiatives, pricing, and volume growth were partially offset by the unfavorable currency translation effects and the transition of our beer portfolio in Brazil, which is in very early stages. If we exclude the currency translation effects, our top-line would have

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increased 6.4% during the quarter.

On the profitability front, our gross profit in South America increased 9.6% expanding our margins by 280 basis points. This increase was driven mainly by the operating leverage resulting from volume growth, favorable price mix effects, and raw material hedging strategies, which coupled with the resumption of the tax credits on concentrated -- concentrate we re-purchase from the Manaus Trade Zone in Brazil. Our operating income for the division increased 18.6%, resulting in operating income margin expansion of 170 basis points. Finally, our South American division was able to effectively mitigate pressures from the dynamic environment and post a resilient full-year operating cash flow margin of 16.4%, 20 basis points ahead of 2020.

I will now expand our financial results, which reflect the strength over balance sheet and successful refinancing initiatives that we carried out over the past years. For the fourth quarter, our comprehensive financial result recorded a decrease of 57.9% as compared to the previous year. This is explained by the following effects: first of all, a decline in our interest expense net, driven by an increase in interest income; second, via foreign exchange gain of MXN79 million as compared with a loss of MXN346 million during the previous year, a gain of MXN131 million as compared to a loss of MXN214 million in the market value of financial instruments; and lastly, a bigger gain on monetary position on inflationary subsidiaries related to Argentina as compared with the previous year.

Notably, on a full-year 2021 basis our interest expense net was reduced by 23.2%, driven by the effects of successful refinancing initiatives in a comparable base that included a one-time effect of approximately MXN1 billion related to the successful refinancing initiatives. Underscoring the strength of our balance sheet and cash flow generation, we were able to finish the year with a cash position of more than MXN47 billion, representing a 9% increase as compared to the end of 2020.

Now, let me provide you with an update on the raw material hedging strategies for 2022. In Mexico, we have hedged approximately 75% of PET needs for 2022 and more than 90% of our high-fructose corn syrup needs for this year. Notably, we have also hedged more than 40% of our aluminum needs in the country, while in Brazil, we have hedged more than 70% of our sugar needs for the year. We are confident that these hedges, coupled with our ability to price ahead of or aligned with inflation across our markets, will enable us to substantially mitigate margin pressures and protect our profitability during 2022.

Moving on to discuss capital allocation. We are very encouraged to confirm that our Brazilian subsidiary's acquisition of CVI, A Coca-Cola franchise bottler with operations in the south -- southern part of the country, successfully closed last month. As a result, we will be -- we will begin consolidating CVI's results as of February 1st. With the acquisition of CVI, Coca-Cola FEMSA bolsters its leadership position in the region to reach 52% of the Coca-Cola Systems volume in Brazil. Adding to our operation one bottling facility and three distribution centers that serve more than 13,000 points of sale and more than 2.8 million consumers in a territory that is full of synergies and market opportunities.

Finally, and consistent with a joint vision and growth perspective we share with The Coca-Cola Company, we expect to increase our CapEx to revenues ratio to a range of 7% to 8% during 2022. These investments will primarily focus on strengthening our infrastructure, especially our affordability capacity and returnable capacity, and investing behind these assets that increase our presence in the market in order to ensure long-term growth and transformation.

And with that, I will turn it back to John for his final remarks, and then we will follow up with a Q&A session. Thank you. Thank you for your attention today.

John Santa Maria, Chief Executive Officer

Thank you, Constantino. Although we expect to continue operating in a dynamic market environment, we are convinced that we have the right set of capabilities to continue delivering accelerated results, growing our top and bottom line while substantially mitigating margin pressures due in 2022. I am encouraged by our strategic agenda which is a clear -- which is as clear as ever, continue building our consumer -- which is -- the goal is clear as ever, which is based on

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building a clear consumer-centric multi category portfolio, accelerate the rollout of our digital B2B and D2C omnichannel platforms and continue placing sustainability at the center of everything we do, while clustering an agile, people-centric culture going forward. We will provide more updates on our strategy as we continue progressing throughout the year. Thank you for your continued trust and support, and for joining us today.

Operator, I would like to open the call for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question today comes from Alvaro Garcia of BTG.

Alvaro Garcia, Analyst

Hey, John, Constantino. Thanks for the space for questions. Couple of questions, one for Constantino, on tax breaks in Brazil. I was wondering if maybe you could help -- there is potential size, or potential benefits in the future, there is anything -- they seem somewhat recurring. So I was wondering if you could maybe help us put a number on that or help indicate if you expect to see more of these going forward?

And two, my second question for John on the multi-category strategy. How should we think about the -- sort of your TAM, your total addressable market as you grow out these pilots, which are not really pilots anymore? How should we think about sort of your TAM for that specific business? Thank you.

Constantino Spas Montesinos, Chief Financial Officer

Hey, Alvaro. How are you? Good morning. You know that Brazil is a very complex and dynamic tax environment. So there's always changes in that context. However, we don't foresee any major changes or impacts as of today in terms of the tax environment. So very difficult to anticipate that in the mid-term, but in the short-term, I don't foresee any relevant tax items going forward. And I hope that answers your question. That's what we can say.

And then, your second question on multi-category, I will let John answer it. If you need any more color, feel free to jump in.

John Santa Maria, Chief Executive Officer

Sure. Alvaro, how are you? Thanks for the question. Multi-category for us is something that we are looking as an opportunity to go out there and become more -- much more customer-centric. And obviously what we are trying to achieve is to participate at a share of wallet level of our customers. That's probably between a 40% to 50% share of wallet of what they sell. So when we think about categories, and multi-category, it is really how do we achieve the relevance to become close to 40% to 50% of the share of wallet in traditional trade, whether it would be on premise or a retail. And that's how we are defining our total addressable market. But it's not only the multi-category products that we can have as an opportunity, but also the opportunity to layer on top of that, services and features that will allow us to continue to grow and drive value through an enhanced platform to these stores via the operating of a comprehensive portfolio of products, and then on top of that, building services. Does that answer your question?

Alvaro Garcia, Analyst

Yeah, no, it's super clear. Super clear. Thank you very much.

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Constantino Spas Montesinos, Chief Financial Officer

And Alvaro, if I might jump in and just provide a little more color, when you look at digitally native initiatives and companies and startups that are trying to leverage on creating an ecosystem around the traditional trade, I mean, they are very good and they have very good business cases in finding the way to monetize that point of sale beyond physical goods. Now, the biggest issue is cost of acquisition of that particular customer and scale. In Coca-Cola FEMSA, as John was explaining, is we are moving into understanding and having a very clear picture of what are the levers and what are the services and technologies that we need to layer on top of a route to market to fully monetize the point of sale beyond physical goods. But at the same time, we have a very valuable asset which is, we have fantastic coverage, great drop size and a very, I would say granular sales force and route to market that allows you at the same time, to have a very relevant portion of that share of wallet from the get-go. So when you blend those views together, that's where the ecosystem and what we are building going forward, comes into play because it's a combination of a great baseline and a profitable approach and coverage of more than 2 million points of sale and at the same time, a series of initiatives that we are working on within Coca-Cola FEMSA, to be able to crack the code of monetizing the point of sale beyond physical goods and provide a much a robust customer-centric solution for these customers. So that's how we summarize what we are envisioning and we are running, as John mentioned the series pilots across our markets and across different segments with very encouraging results, but most importantly, with a lot of learnings from the testing of different proofs of concept that we are working on today. So, I don't know if that helps to round out the idea, Alvaro.

Alvaro Garcia, Analyst

Yeah, so, and certainly the lowest customer acquisition cost out there. Thank you very much.

Constantino Spas Montesinos, Chief Financial Officer

Thank you.

Operator

And we can go to Carlos Laboy of HSBC.

Carlos Laboy, Analyst

Yes, good morning, everyone. I was hoping that you could expand, John, on how high you think refillables can grow? I mean, these levels you are hitting in Mexico are pretty impressive for package that was left for dead 15 years ago, 20 years ago. And what's the business case also, for going into recycling? And how does this plant, and then your refillable target, how does this all holistically drive your plastic waste objectives, because you seem to be doing it backwards from the way a lot of the Coke system has been doing it, right? Your mastering the refillables first, and now you are actually putting money to work on the recycling side of the equation. If you can expand out all this, please.

John Santa Maria, Chief Executive Officer

Sure. And I guess, Carlos, we really know how to package that was lost in memory, which is refillables. It's always been a very large component part of our portfolio, and it's a key part of our portfolio. Multi-serve refillables is something that has allowed us to go out there and leverage our portfolio and our pricing architecture for a long, long time, and that's why we are selling differentiated pricing throughout a lot of different areas. And now we are doing it even more so, with the universal bottle, bringing down the bottle floats and being able to put more categories through universal bottles and

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just labeling instead of having different bottle floats. So when you start thinking about those, and we have Mexico growing at 40% of refillables, we believe that that is something that is achievable in most of our operations, definitely in Central America, definitely in Colombia, a good possibility in Brazil, and then Argentina. So those are benchmarks which I think are pretty much achievable everywhere.

And the issue of us going into recycling facilities is one where it is consistent with The Coca-Cola Company's policy of a World Without Waste. We are right now recycling, using about 28% recycled PET overall Coca-Cola FEMSA, some places more, some places less. And we do want to take that number up with this particular plant in Mexico, to about 50% of what we are using in Mexico. And if you look forward and say, why would we want to do this, first is because we think it's the right thing to do for our communities, second, being for our planet, and third, when you start looking at putting together recycled resin and the cost and the prices that recycled resin have today versus virgin resin, the pricing structure is 30% more -- is higher in -- on recycled resin than virgin. So it is not about investment either. So it has to do with a lot more about putting sustainability at the heart of what we are doing, leading our industry into better practices.

And this is not only a recycling plant, but it's also a collection out there where have put together a string of 18 collection facilities to supply that. So it's a whole recycling and circular economy move that allows us to start off with a leading example and where we -- in Mexico where we have most of our investment. But this is something we'll be looking to roll out into a lot of different countries as well.

Carlos Laboy, Analyst

Thank you. Congratulations. This is excellent.

John Santa Maria, Chief Executive Officer

Thank you.

Operator

We can go to Lucas Ferreira of J.P. Morgan.

Lucas Ferreira, Analyst

Hello, gentlemen, can you hear me?

John Santa Maria, Chief Executive Officer

Yes.

Lucas Ferreira, Analyst

Yeah. Hi, John and Constantino. Yeah, I have a two questions, the first one on the South America results. You guys delivered good margins despite of the pressures coming from the migration of this new contract with Heineken, right? So just wondering high level thoughts, if you can comment on the margins in Brazil, if it's surprising to the upside or if it's like other countries that were pushing these margins up, and if you can also make some high level comments about the transition there in Brazil. How it's been going with the Tiger, so we understand on what to expect for 2022.

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Constantino Spas Montesinos, Chief Financial Officer

Sure, Lucas. I will take that. In South America, as we mentioned, during the quarter, our margins expanded around 160 basis points. This was mainly driven by gross margin, and solid price mix in the division. So to better explain the effects, we had overall better volumes across the division. We recovered price mix mainly in Argentina and Colombia and we coupled that with recovering operating leverage. We had favorable raw material hedges, especially sugar and aluminum in Brazil, which allowed us to substantially mitigate the pressures and generate some savings. We also had some freight low inflating efficiencies in marketing and freight that were partially offset by the normalization of the expenses such as labor and maintenance. And at the same time, the resumption of tax credits in Brazil in the second quarter, had a relevant impact. In addition to that, we also had the transition of the beer portfolio as you know, which we are going to talk about right now, also has had negative impact on margins. But all in all, we mitigated that with better operating leverage in the division. So, that's like a -- the compounded effect of all of these variables generated this outcome.

In terms of beer, we're probably at the lowest points of the beer transition after a decline of approximately 30% in beer revenues for 2021. For 2022, due to the effect of this transition, we expect revenues to decline around 15%, probably, and hit the low point of the transition and then start the rebuilding of the portfolio. And as we have previously mentioned, we are building a very solid portfolio with Heineken brands such as Eisenbahn and the launch of Tiger. Eisenbahn has been, I think the first one to pick up a lot of steam in our platform. We are growing coverage significantly versus where we received the brand. The launch of a new brand like Tiger, the value proposition needs to continue to gain traction in the market, but we are seeing some interesting green shoots there. Therezopolis brand is growing super well, starting from a very, very small baseline and now we recently acquired distribution of Estrella Galicia. So if we put that altogether, I think that from a two to three year timeframe, we see it as a feasible target to recover our previous position with the new portfolio. So I don't know if this provides you with some more color on your questions, but definitely, the reconstruction of a very different beer portfolio with great alternatives for the customer and the consumer is something that doesn't happen overnight, but we are very pleased in the way that this is evolving.

Lucas Ferreira, Analyst

No, that's great, Constantino. Thank you.

Constantino Spas Montesinos, Chief Financial Officer

Thank you for your question, Lucas.

Operator

Our next question comes from Antonio Hernandez with Barclays.

Antonio Hernandez Velez L., Analyst

Hi. Good morning. Thanks for taking my question. My question is also regarding the deal. Thanks for the color that you just provided. Can you give a little bit more sense of the whole consumer environment, and there are elections this year, there's also carnivals and also a world cup that will be played in a different part of the year. How's the overall environment that you see there?

Constantino Spas Montesinos, Chief Financial Officer

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Go ahead, John.

John Santa Maria, Chief Executive Officer

No, I was going to say I heard only parts of the questions. So if you heard it fully, go ahead, Constantino.

Constantino Spas Montesinos, Chief Financial Officer

You want to recap, Antonio, so that John has a full idea of your question, please?

Antonio Hernandez Velez L., Analyst

Sure, of course. Question's regarding the whole Brazil environment with elections this year and world cup taking place at another part of the year, and also basically there will be probably the Brazilian Carnival as well. How's the consumer environment there, that you're seeing there? Thanks.

John Santa Maria, Chief Executive Officer

You want to hit that one, Constantino?

Constantino Spas Montesinos, Chief Financial Officer

Sure, and you can complement. Antonio, thanks for the question. Well, we are confident -- the biggest disruptor that we have had in the last couple of years, which is the pandemic, that we are leaving behind the most challenging phase of the pandemic. And that's definitely something that provides a much more positive outlook for consumers. And that's across all of the regions. It's not exclusive to Brazil.

As you mentioned, there is a very, I would say, a typical year in terms of elections going forward. It's a very dynamic and fluid environment, and a couple of days ago, we hit a new and very disruptive issue in the world with the events that are happening between Europe, you know, Ukraine and Russia. So volatility and uncertainty will be permanent, we believe. Having said that, we feel that we have a much more positive environment in terms of consumer in Brazil. I think that our strategy that we have proven to be very solid across the last three to four years, remain unchanged. So we believe that we are going to have positive volumes, our pricing will be in line, slightly ahead of inflation, and the executional capabilities of Coca-Cola FEMSA, digitization or price pack architecture and the collaborative work with The Coca-Cola Company should allow us to navigate any volatility that we face during this year, at least the ones that we can anticipate.

So all in all, we see a positive environment going forward. And as any year that's an electoral year, we need to monitor it day-by-day and see what adjustments we need to make. But so far we are very optimistic of the Brazilian market and the consumer environment as we speak. John, I don't know if you want to add something?

John Santa Maria, Chief Executive Officer

Yeah. Antonio, I think first of all, we expect, and are planning for a strong growth out of Brazil. And that strong growth comes from, as Constantino said, strong portfolio, but also continued share gains. We continue to gain share in Brazil, and we are better positioned now than ever for uncertain environment. What concerns probably everyone, is inflation and how we -- the high levels of inflation, and how the Brazilian inflation environment has been developing. We are taking pricing within that line of inflation and keeping up with inflation, but we do have a set of tools that we didn't

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have in place in most parts of Brazil before, which is refillable PET. Next, we have the dual affordability packs, which has been expanded. So there's a lot more tools in our tool chest today than we had before to be able to confront which could be a softer consumer environment, and then we will continue to be able to pick up share as we have them. And so, our portfolio is better positioned. And I am very encouraged to see that so far, we continue to see good momentum in Brazil. So it's a case where we are very positive for the country for 2022.

Antonio Hernandez Velez L., Analyst

Thanks a lot.

Operator

Our next question comes from Marcella Recchia from Credit Suisse.

Marcella Recchia, Analyst

Hi, John. Hi, Constantino. Thank you for taking my question. My question is pretty simple. I just would like to know if you could give us something to say on how the regions are performing so far during this quarter? Thank you.

Constantino Spas Montesinos, Chief Financial Officer

Hello, Marcella. Thank you. Mexico. In Mexico, the quarter was benefited by affordability, execution and recovery in mobility. We see recovering mobility across all of our markets, and that is a positive element to the consumer environment, and will definitely drive sales.

In Mexico, for example, we grew in all channels. Importantly, in the on-premise. And we are continuing to recover mix in single-serve. We reached 32% of mix in single-serve, which is almost 2019 levels. Just need to grow slightly higher to reach 2019 levels. And I think that we will surpass that. And as we mentioned before, returnables are around 40%, which is huge considering the size of our business.

For 2022, in Mexico, we continue to see positive momentum. It's extremely weather-dependent, but as of today, weather seems fine out there. We continue to leverage affordability in returnables and we are implementing the operating and portfolio management measures to grow. That covers a little bit of Mexico.

In the case of Brazil, we -- I think we tackled a positive consumer environment, and we believe we have a very solid plan in Brazil. So that is also providing us confidence for growth in Brazil, considering, on the other hand, as I mentioned, the transition to the new portfolio. So affordability in Brazil continues to be an important play, multi-packs, returnables and a lot of digital. So we are moving into digital consistently and we continue to rollout that. We have more than 200,000 customers using WhatsApp for business application. This is about 60% of our total customer base in Brazil, and we are managing over 15,000 orders in one day and that's growing. That's the equivalent to give you an idea, of over 200 pre-sellers on the order entry effort.

Now, we are not substituting our pre-resellers. They continue to be a key component of our omnichannel value proposition. So this is layering on top of of what we are handling in Brazil in our traditional route to market. And in the case of Colombia, we see a fantastic momentum behind the business, and we see a favorable environment. It's also electoral year but it's going to be earlier on, and we believe that we will continue to grow there.

Argentina, despite the fact that we have a very volatile macroeconomic environment, I think that we have been able to find the proper strategy, combining consumer efforts, our price pack architecture for a very, very constrained purchasing power in Argentina, given the macroeconomics and a fantastic consumer value proposition. So I think that that will allow us to continue weathering the storm in Argentina.

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Then Central America continues to grow double-digits in all of our markets. Nicaragua, which is a smaller market is also a market that's very prone to volatility due to the macro environment, but even including that, it was growing double-digits last year. And Guatemala just continues to be fantastic case of Coca-Cola FEMSA's capabilities focusing on the core and fixing fundamentals in the market once we consolidated the businesses. And we continue to grow double-digits after three years, and we are seeing on top of that, enormous opportunities for headroom going forward.

So all in all, that's how we are seeing the volumes. Evidently, volatility and uncertainty is paramount today, but with the current conditions, we think that we have a favorable environment for growth in the upcoming year. I don't know if that helps, Marcella.

Marcella Recchia, Analyst

That's excellent. Thank you very much guys.

Operator

Next question comes from Ricardo Alves of Morgan Stanley.

Ricardo Alves, Analyst

Hi, John, Constantino. Thanks so much for the call. I have two follow-ups on questions that were already asked. In Brazil, first one, I was positively surprised by the positive consumer outlook you laid out for Brazil. It's good to hear that. But still surprised. Volumes going up in 2022 but expectation with pricing ahead of inflation. So is this based partially on what you already saw in January and February? So just trying to get a little bit more color on this, let us say, optimistic outlook.

And can you try to quantify that a bit more? I mean you, if I am not mistaken, you are running 15% of book of the pandemic levels in terms of volumes in the third quarter. In the fourth quarter, that decelerated much of the 5% mid single-digits versus pandemic. Is this the new baseline kind of level we should be working with as we think about 2022? So, just two questions on volumes in Brazil.

Second question, very quickly, a follow-up on Brazil beer. On the transition, of course. Can you walk us through kind of the best monthly evolution that you saw over the past quarter? I Remember having discussions with you with the hiccups that you saw in September, naturally the first month of the transition, but how did that evolve in October, November and December more recently? I mean did the new facility of the Heineken in October, did that facilitate in a major way, the transition? So just a little bit more granularity on the evolution of the transition. Thank you so much.

Constantino Spas Montesinos, Chief Financial Officer

Thank you, Ricardo. You asked like, five question questions in one go. We'll have Jorge answer, and John and myself will provide some additional color.

John Santa Maria, Chief Executive Officer

Sure. Ricardo, thanks for the question.

Ricardo Alves, Analyst

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Thank you. Hello, Jorge.

Jorge Collazo Pereda, Head of Investor Relations.

Thanks for the question, Ricardo. So on Brazil volumes. I would say, as John mentioned, we are very optimistic about the outlook for Brazil for 2022, The numbers you mentioned are correct. So actually the fourth quarter 2021, if we compare to the fourth quarter of 2019, it's actually 6.5% above now, the 2019 base line. And we expect that momentum to continue. We have strategies around affordability and execution, and the multi-category strategy as well that are implementing, the B2B, digitization initiatives, et cetera, all combined for these optimistic expectation for Brazil. As Constantino also mentioned, volatility is going to be paramount. It's definitely not going to be a walk in the park, but we are convinced that we have the right capabilities.

So to give you a sense, I would say that we continue to expect in the low to mid single-digits volume growth expectation for Brazil in 2022. And pricing, as Constantino also mentioned, is at least in line with inflation and if we see the opportunity, we will take pricing ahead of inflation. We will continue to foster a mix recovery in Brazil. So that's broadly speaking, the strategy and the expectation for Brazil.

And if we think about -- moving on to the transition of beer, Ricardo, I would say that pretty much in line with what Heineken mentioned on their release a couple weeks ago. There has been solid performance from premium brands. Eisenbahn coverage has been our focus, we have been taking over the brand and we have increased significantly the coverage of Eisenbahn in the market. Tiger is of course a recent launch. So it takes, as usual -- as it usually happens it takes some time to adjust and make some adjustments, but we are learning from that, and Tiger is getting better and better as well. And at the same time we are taking over the distribution of Estrella Galicia to nicely complement the portfolio. And we have the Therezopolis as well. So the idea is to continue with that strategy, to continue complementing and building up these very consumer-centric and strong portfolio of beer for Brazil.

I don't know, John, Constantino, you would like to add something to that?

John Santa Maria, Chief Executive Officer

No, Jorge, I think it was thoroughly explained. Thanks.

Ricardo Alves, Analyst

Thanks, Jorge.

Operator

Our next question comes from Sergio Matsumoto of Citigroup.

Sergio Matsumoto, Analyst

Yes. Hi, good morning, John and Constantino. Thank you for the space for question. I wanted to delve a bit more into the beer question, if I may. You were very successful with the distribution of Heineken, and I guess the expectations for what is the new portfolio of beers, it's very interesting to ask or watching you do this for the next several years. And just wondering on the strategy, the long-term strategy of this, it sounds like from what you have said in the prepared remarks and what Jorge just mentioned is that the focus would be on Eisenbahn at the beginning, perhaps also with Therezopolis as these two are premium beers, and that's where growth is, but it's also a very competitive space with Heineken trying to dominate that and as they're also trying to reclaim that space. What are the of the possibilities of Tiger in Brazil as the

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main stream was kind of ignored in the last year and a half, and maybe there is a easier base, if you will, to accelerate growth there. Is that a possibility? And also when you look into Estrella Astur -- excuse me, Estrella Galicia, they are building a new plant, right? And it's quite large and if they were to reach capacity, it could represent all on its own 2% of the whole market. So that's quite big. So, just, I am curious on the potential for the brand as well. And also on which channels you might focus on? Whether it will be the large retailers, traditional channels, et cetera? Thank you.

John Santa Maria, Chief Executive Officer

Thanks for the question. I think as you pointed out, we are in a transition. But we are bringing together a very strong portfolio of brands and obviously the Heineken portfolio is an extremely fundamental piece to it, and a very large department. And we continue to work very closely with them. We have taken over Eisenbahn. Eisenbahn has been -- we are growing in coverages and client base in a very significant way, and the acceptance of the brand is very good, extremely good.

As we go forward, Therezopolis is also a brand which is a very premium craft beer, and the acceptance that we are getting and the growth curve that we are looking at is very, very strong as well.

Tiger is something that is a new brand. It's a total new brand for Brazil, and we have very close collaboration with Heineken as to what we need to go out there and adjust as we go forward. There are certain packages that are working better than others, there are certain graphics that maybe working better than others, but it is progressing. It's progressing, and I think that's going to come back and allow us to be within that core area, a good player.

And Estrella Galicia, we are just getting going. So it's a little bit too soon to say, but as you said, the plants are extremely large and the ambitions of the brand owner with the plant are there. So I think -- it is also very well accepted in the market. So we are putting together a very powerful premiumized -- or premium or core portfolio, is something that we will continue to see the development for the next -- throughout the 16 months to 18 months in terms of digesting and settling in, and probably also adding other brands to that that would enhance our offer to the customer.

Constantino, you were going to say something?

Constantino Spas Montesinos, Chief Financial Officer

Yeah, no, just to complement, Sergio, what John mentioned, I think that in our view the key of putting together a successful portfolio is understanding and mapping not only price segments, but also need states and what brands can you deploy against the combination of need states, price segments and channels where we have certain advantages and enormous capabilities. And we have mapped out evidently with Heineken, but doing the work ourselves with other partners, a possibility of creating a portfolio that addresses those key points and leverages on our capabilities. So as John mentioned, this is transition. This is not necessarily the full picture. I can assure you we will be adding additional brands to the portfolio, and these will come either from Heineken or some fully owned brands like Therezopolis or with other other players to complement the portfolio, and at the same time, we continue to push and establish and grow the current value propositions that we have. Tiger is a fantastic liquid with the flint model, pure malt formula in a market that requires easy to drink beers. But we need to allow time for the brand to gain traction in the consumers' mind. At the same time, Eisenbahn is a fantastic value proposition of a local craft beer that has gone more massive than small craft brands. And Estrella Galicia has a great portfolio with both premium and super premium offerings that we will continue to develop. But stay tuned, because this is not necessarily the end state of what we are putting together.

Sergio Matsumoto, Analyst

Okay. Quite interesting. Thank you very much.

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Operator

Ladies and gentlemen, that's all the time we have for questions today. I would like to hand the call back for any additional or closing remarks.

John Santa Maria, Chief Executive Officer

Well, thank you for the confidence and interest in Coca-Cola FEMSA. As always our Investor team is available to answer any of your questions. And we anticipate a very strong year for Coca-Cola FEMSA in 2022. Thanks for your time today, and we'll be in contact.

Constantino Spas Montesinos, Chief Financial Officer

Thank you. Have a great weekend.

Operator

Ladies and gentlemen, that concludes today's conference call. We thank you for your participation. You may now disconnect.

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