Coca-Cola FEMSA Second Quarter 2023 Conference Call

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Participants

Jorge Collazo – Director of Investor Relations

Ian Craig – CEO

Gerardo Cruz – Director of Finance and Administration

Operator: Good day and welcome to the Coca Cola FEMSA Second Quarter 2023 conference call. Please note this conference is being recorded and registration of the call your lines will be in listen only. However you will have the opportunity to ask question at the end of the call. This can be done by pressing to star one on your telephone keypad to register your question. I will now like to hand the call over to Jorge Collazo, Coca Cola FEMSA Investor Relations.

Jorge Collazo: Thank you, and good morning, everyone. Welcome to our conference call to review our second quarter 2023 results. I am here with Ian Craig, our Chief Executive Officer, and Gerardo Cruz, our Chief Financial Officer. As usual, after prepare remarks, we will open the call up to take your questions. Please keep in mind that this conference call may include forward-looking statements concerning Coca-Cola FEMSA's future performance and should be considered as good faith estimates made by the company. These forward-looking statements reflect management's expectations and are based up on currently available data. Actual results are subject to future events and uncertainties that can materially impact the company's performance. With that, let me hand the call over to our CEO. Please go ahead, Ian.

Ian Craig: Thank you, Jorge, and good morning, everyone. We appreciate you joining us today. Coca-Cola Pena delivered another set of solid results for the second quarter. We continue to demonstrate our positive momentum with solid volume performance resulting from growth across all of our markets. Notably, we continued improving our execution redoubling, our focus on our customers and our consumers, and increasing investments to continue supporting our growth.

The first six months of the year have also been important for the Coca-Cola FEMSA Senior Leadership team to complete our listening tour and set the strategic priorities of our business going forward. As I have mentioned on our previous calls, as part of this process, we have walked our markets, met with key stakeholders, and identified the pain points and the many opportunities that are ahead for us. We're convinced that we are very well positioned to accelerate the growth of our core business and become our customer's preferred commercial platform. With that, let's review our consolidated results for the second quarter.

Our consolidated volumes increased 7% year on year surpassing 1-billion-unit cases. This March the first time that our company surpassed 1-billion-unit cases in a single quarter, our volume growth was driven mainly by solid performance in key markets such as Mexico, Brazil, and Guatemala. As was the case during the first quarter of the year. These volumes include the integration of Crystal, a bulk water business that we acquired at the end of last year in the southeast region of Mexico. Excluding these integration consolidated volumes increased 5. 2%. Performance across our beverage categories remain strong. Sparkling beverage volumes grew

4%. While our steel beverage and bottled water portfolios grew 7% and 18% respectively. Our consolidated total revenues grew 7. 2% to reach 61. 4 billion pesos driven mainly by volume growth. We achieved this performance divides significant currency translation headwinds, driven by the appreciation of the Mexican peso. To give you a sense, excluding currency translation effects, our total revenues increased 16. 9%, underscoring how strong our under underlying performance is. Our gross profit increased 7. 9% to reach 27. 3 billion pesos leading our gross margin to expand 30 basis points. This expansion was driven mainly by our top-line performance easing PT costs and favourable raw material hedging initiatives. These effects were partially offset by an increase in sugar prices across most of our territories.

Our operating income increased 11. 9%, reaching 8. 6 billion pesos, and our operating margin expanded 50 basis points. Our positive top-line, favourable mix of it, a non-cash operating foreign exchange gain related to the appreciation of the Mexican pesos drove this growth.

Finally, our EBITDA for the quarter increased 7. 8%, reaching 11. 4 billion pesos resulting in an EBITDA margin of 18. 6%. Our top-line growth and cost efficiencies drove this performance, which was partially offset by increases in operating expenses such as labour marketing and maintenance. I will now move on to expand on key highlights. During the first half of the year. In Mexico, our solid performance included record volumes during the months of May and June. A resilient consumer environment are focus in execution and favourable weather conditions supported this growth. Importantly, all of our beverage categories are growing, driven mainly by brand Coca-Cola and our personal water category.

We're driving portfolio innovation as well with two recent launches in the flavoured sparkling category. Del Valle Fizz, a low carbonation, sparkling orangeade and lemonade, and Fresca Fusion, combining grapefruit and lime with a salty touch that makes it ideal for mixing. Notably, our non-calories portfolio led by Coca-Cola, sin Azúcar, grew a solid 14. 3% versus a previous year. We also continue to see double-digit growth in the modern trade channel, outperforming what remains a resilient traditional trade.

Finally, digitalisation in Mexico continues evolving with Juntos plus our digital B2B omnichannel platform. As a result of this rollout, 30% of the orders in the traditional trade are now digital. In Brazil, our volumes continue growing at a solid pace driven by growth across all of our categories and channels aligned with our priorities, we continue accelerating our non-calories portfolio with Coca-Cola, sin Azúcar growing 32% versus the previous year. In categories such as energy and water, we continue consolidating our market leadership by strengthening our portfolio with new flavours. Finally, with power rate, our sports drink volume is also growing in the double digits versus the previous year.

On the digital front, Brazil continues increasing its June to plus user base month over month. We now reach 237,000 active monthly purchasers. Notably, 60% of our orders in the traditional trade channel are digital in Brazil. In Guatemala, we continue seeing an impressive performance. Our volumes have consistently grown in the double digits, driven by our focus on the fundamentals of the business.

For instance, during the first half of the year, we've added more than 9,000 clients and installed more than 13,000 coolers. All this, as we continue to leverage our portfolio's affordability and superior execution to continue gaining share across all of our beverage categories. Additionally, aligned with our strategic pillar to remove infrastructure bottlenecks and to satisfy our

Guatemalan consumers growing demand, we're installing a new one-way ET line this year, as well as new returnable bottling lines during the first quarter of 2024.

Finally, I want to comment on Colombia. After a historic volumes year in 2022, a tougher-than-anticipated macro and consumer environment has slowed our volume space during the first half of the year being flattish at 0. 5% growth. Nonetheless, despite this challenging environment, we're outperforming the industry as we strengthen our competitive position by gaining share in the sparkling personal water and non-carbonated category.

As I previously mentioned, our first-half results are in line with our plans, and we are encouraged to enter the second half of the year with positive momentum. Our teams across all of our operations are well equipped to continue accelerating across all of our strategic objectives, delivering on the growth strategy that we have set as an organisation. Speaking of our team and our talent, I want to take the opportunity to comment on our culture. A topic that is very dear to me. As I previously shared with you, one of our six strategic corridors focuses on strengthening our customer-centric culture. This is critical to be our customer's preferred commercial platform. Aligned with this priority, we're identifying opportunities to, I, better understand our customer's needs, II, improve customer's experience, and III, empower our organisation towards a more customer-oriented culture. We are convinced that by measuring the right KPI as well as empowering and aligning our organisation towards these objectives, we will continue improving, improving our customer centricity, which is a common feature of high-growth organisation.

Finally, I want to take a moment to recognise our team in Argentina. Last week, Coca-Cola FEMSA Argentina was awarded by the Coca-Cola company with a candour cup for 2022. The candour cup named after Asa Candler, founder of the Coca-Cola Company, and the person who granted the first Coca-Cola franchise is an important award given to a bottler in recognition for its excellence in execution, coupled with its investments behind its people's development, training, and culture.

Congratulations to the Coca-Cola FEMSA Argentina team who working together as one single team with our colleagues from the Coca-Cola company in Argentina have made this recognition possible. In summary, we're confident that we're on the right track to achieve our objectives for 2023 as we continue winning in the market and progressing on our key strategic priorities across our operations. With that, I will hand the call over to Gerry to expand on each division's results as well as progress on our saving initiatives.

Gerardo Cruz: Thank you, Ian, and good morning everyone. Expanding our division's results for the quarter in Mexico and Central America. Volumes increased 8. 9%, maintaining the solid pace of the first quarter. Growth across all of our territories in the division drove this performance, excluding the integration of crystal's Bulk water business. Our volume in the division increased six 6%.

Revenues in Mexico and Central America increased 13. 4%, driven by our volume growth and revenue management initiatives. These effects were partially offset by the unfavourable translation effects from most Central American currencies and to Mexican Pesos.

Our gross profit increased 13%, resulting in a gross margin of 47. 7%, a compression of 10 basis points year on year. This is a sequential improvement from the first quarter of the year. Top-line growth, raw material hedging initiatives, and the appreciation of the Mexican peso helped to partially offset cost of goods sold pressures.

Operating income growth for the division accelerated by 13. 7%. This resulted in a slight margin expansion of 10 basis points driven mainly by our top-line performance, coupled with a non-cash operating for an exchange gain related to the appreciation of the Mexican fish.

Finally, our EBITDA grew 9. 2% with margin declining 80 basis points due to an increase in operating expenses, mainly related to labour marketing and maintenance.

Moving on to South America division, volumes increased 3. 8% in line with the pace of the first quarter. Low to mid-single-digit growth in Brazil, and double-digit growth in [inaudible] primarily drove this performance. Our revenue for the South America division declined 2. 2% as unfavourable currency translation effects into Mexican pesos more than offset our volume growth and revenue management initiatives.

Notably, when excluding currency translation effects, our comparable total revenues in South America increased a solid 20. 3% during the quarter.

Gross profit in South America declined 1. 6%, mainly due to a currency translation effect resulting in a 20 basis point margin expansion. This expansion was driven mainly by volume growth, hedging initiatives, and favourable mix. These effects were mainly offset by increases in raw materials costs, such as sweeteners, and the depreciation of the Colombian and the Argentine fish.

Operating income for the division increased 6. 6%, and operating margin expanded 80 basis points as compared to the previous year. As was the case during the first quarter of the year are positive, top-line coupled with tight expense control across our operations more than offset higher fixed costs and expenses. Finally, EBITDA in South America increased 4. 4% resulting in an EBITDA margin expansion of 90 basis points.

Moving on to our financial results, the quarterly comprehensive financing results recorded a significant increase as compared to the previous year. This is explained mainly by an unfavourable comparison base that included a one-off market value gain in financial instruments of 355 million pesos recorded during the second quarter of last year. In addition, during the corridor, we recognised the foreign exchange loss of 437 million pesos driven by the appreciation of the Mexican peso as applied to our US dollar cash position and the lower gain in hyperinflationary subsidiaries. These effects were partially offset by a decrease in our net interest expense, mainly because of an increase in interest income that was driven by higher interest rates. Finally, our controlling net income increased 6. 5% to reach 4. 9 billion pesos resulting in earnings per share of 29 cents. It is important to note that our controlling net income for the first six months of the year increased 17. 3%, underscoring our positive underlying operations performance in the face of significant currency translation headwinds.

Finally, as part of our initiatives to generate savings and efficiency at the beginning of the year, we shared with you a target of more than $60 million in savings to be driven by our supply chain team. We are encouraged by our progress year to date as we have achieved savings of more than $35 million during the first half of the year, driven mainly by initiatives to reduce our cost to make and our cost to serve, which exceeded our expectations for the first half of the year. We are confident in our team's ability to continue generating significant savings and efficiencies as we enter the second half of the year. With that operator, we are ready to open the call for questions.

Operator: Thank you, and as a reminder, if you do have a question, please signal by pressing star one on your telephone keypad. The first question today comes from Ricardo Alvez of Morgan Stanley.

Ricardo Alves: Hello, gentlemen. Thanks so much for the call. Had a question on the competitive backdrop in Mexico. On a next crystal basis, I believe your volume is at 5% or so in a quarter. How do you think that that's comparing to the industry in Mexico? Do you think it's fair to say you're gaining back some share here already in this first half of the year? Perhaps on that point, if you can expand a little bit on your commercial approach, depending on the channel or Pax, whatever call you can give on how you're dealing with competition in Mexico, that would be helpful. My second question is, typically, and obviously, we tend to focus on the bigger markets, but when you take Guatemala, the other Central America region, Columbia together, it starts to build up, and particularly in Central America, the growth has been pretty impressive.

So, just wondering if you can talk a little bit about that. I missed the early remarks you guys made, but more interested particularly in what you're doing in Guatemala and maybe more important, what is the prospect for this market, what Coke FEMSA can do to further develop the market. Then in Colombia, whatever colour you can give if this is a market where you see big prospects for growth as well. A little bit outside of the Brazil and Mexico questions. Thank you so much, gentlemen.

Ian Craig: Hello, Ricardo. How are you? Thanks for the question. In Mexico, as just a little background, we have been in an environment where we have had about five years of a deteriorate with a deteriorating competitive position. We started at the beginning of the year that we needed to stabilise that and start to take a new trajectory, a growth trajectory, we've been able to accomplish that. So we've stabilised our competitive position. There's a lot that we're doing. I don't think it's healthy to go into the specifics, but in general, it revolves around multi-serve one-way pacs, where we're working with a better OBPPC, more focused and targeted calendar initiatives. Also there's work to be done on certain pricing strategies between channels. The brand is so strong, our multi-packs are there, our flavours are there, and so far with very targeted adjustments that we're doing, it's responding very quickly.

I think the news on Mexico, on the competitive position front is very positive. We've established that. By year-end, we expect that slight gain, and that's the trajectory that we're going to look into maintaining. when you look at Guatemala, Guatemala is a dual for us as well as the rest of Central America. They're highly profitable markets, and in the case of Guatemala, I think I mentioned before, this is a 17 million population country over 17-18 million where our per cap are around 207. It's growing double-digits. There's no reason that in the medium term, we cannot take per caps up to 250. We have enough of differential in share where there's still a lot of share to capture as well as organic volume.

The story there has been fantastic. We've grown shares almost eight points in the last five years. So, our margins keep expanding as well as our return on investment capital, and it's a nice little secret that's within the very large Coca-Cola FEMSA and numbers, but now it's already the third largest country in terms of profits for us, and it should continue gaining in importance. I don't know if that covers the points, Ricardo.

Gerardo Cruz: Colombia, if I may expand Ricardo, as Ian mentioned during the call, we are performing on top of our record volume year, which was 2022. basically in line a little bit above last year, even considering the slowdown in macroeconomic activity in the country. We do expect some headwinds at the end of the year with coming out in into effect of the sugar-added beverage tax that will come into effect in November, but we certainly continue to be very polished on the prospects of growth in Colombia going forward. We are operating basically at maximum capacity in both manufacturing and distribution capacity, and we are investing importantly for the following years to build up on that capacity because we certainly think that those two are the biggest engines for growth going forward, Colombian and Guatemala.

Ricardo Alves: Very helpful, Gerardo. Appreciate the time.

Gerardo Cruz: Thank you, Ricardo.

Operator: The next question comes from Thiago Bertolucci of Goldman Sachs.

Thiago Bortoluci: Hey, good morning, everyone. Thanks for the call and for taking the questions. I'll like to double-click following you up on Ricardo's question on Mexico. When I try to break down the top-line drivers, I see strong volumes, but it's like sequential price acceleration. How are we seeing the outlook for demand going forward? Specifically, [inaudible] in is slowed down related to the Mexican peso appreciation, the impact on remittances, and how your overall price strategy should behave in a context where your cost inflation is much really accelerating. This is the first question, and the second one, I guess is a more long-term strategic update on what are the sources of synergies that you are identifying and might be able to explore under these new funds of forward that drop, and joint effort to try to execute and monetize the B2B, and the [inaudible] that both platforms might have with the traditional trade? Those are the questions. Thanks.

Ian Craig: Thank you, Tiago. I think the first point, if I remember correctly was top line on Mexico and how that is going so far. Right now our volumes in Mexico are growing around 8%. if you take out the bulk water business, it's 5% growth. So far so good. We don't see any slowdown at all. Volumes are strong. I think we're going into an election year. There's a lot of inflows coming in from Mexico as a whole due to the nearshoring, so we're very positive on Mexico. I don't foresee any deceleration or pressure on the top line. On the contrary, I think the way we've managed to set the new competitive landscape and strategy, our top line and volumes should continue along this space, barring any unforeseen climate or uncertainties, but so far so good, and that seems to be going along nicely. In terms of the synergies with FEMSA forward, there are two very concrete cases where we are collaborating, and it's the case of the Junto Plus platform in Mexico, where we are working to tie in FEMSA or spin FinTech solution. On the payments front we will be rolling out that as a feature for our trade partners in Juntos Plus, and also in the loyalty plan, spin Premier has a very large and robust loyalty plan. What we aim to do is when we roll out the app four version for Mexico, in the end of the fourth quarter, our loyalty plan will have a link to the spin loyalty plan, to the spin premier loyalty plan.

That only makes it more attractive both for us and for the spin plan, which it's very simple. The point will be exchangeable not only for products that we manage both of the Coca-Cola company and of our third-party portfolio, but also interchangeable for spin premier rewards, which have a much wider catalogue. It just gives it a lot of added value for our trade clients. That's basically the two large areas or where the largest impact that we have right now. Yes, I don't know. Gerry. Did I cover all points there?

Gerardo Cruz: Yes.

Thiago Bortoluci: That's clear. Thank you very much gentlemen.

Ian Craig: Thank you.

Operator: The next question comes from Sergio Matsumoto of Citi Group.

Sergio Matsumoto: Yes, hi good morning. Thank you for taking my question. Ian you mentioned just now on the Juntos Plus and you also on your prepared remark about improving customer experience, there's some nice uptick on the traditional trade adopting the Juntos Plus. Can you give us some anecdotes on how they have improved their experience with you through this platform? That's my first question. The second one is on Argentina having won the Candour cup, very impressive. Can you share what do you think were the aspects of your team's performance in Argentina that was most recognised by the Coca-Cola Company? Given that they operate in Argentina, they have particular challenges, and if there are any best practices that you can transfer into Brazil or Mexico? Thanks.

Gerardo Cruz: Thank you, Sergio. I think on the first question on Juntos plus, what we are seeing is, and this I think applies in general to well-established platforms. When the client has time on his hands, he has the possibility of ordering more items. So for us, what is happening is when we are allowing the client to place an order in the time and channel of their choosing, they're no longer hampered to take the order only when the presell comes and visits. As you know, our Juntos Plus model is omnichannel. That's a big difference to our main competitors. What that means is we have kept the presell visits, and on top of that, we offer the order on the app or WhatsApp chatbot. So, whenever the client enter via WhatsApp chatbot or our app, they're usually doing that when they have a specific need that wasn't met at the presell visit and or when they have more time on their hands.

So it ends up that our items per store on those orders are larger. What we see is an optic for us when they're ordering online and an increase on average frequency. They're able to manage their working capital in a better way, and since we have either flexible delivery as in Brazil, which is next day delivery, basically across 70% of our territory, or where we have a lot of delivery frequencies, such as in Mexico, it's an optic for them to be able to plan and take their order when they have a time. So we're seeing very positive results on that front, and steadily more and more of the orders are coming in digitally. Sergio, In regards to Argentina, the candour cup recognised three aspects that stood out in Argentina. As you know, Argentina's always a booker context, however, they managed to ensure growth and consumption occasions.

First of all, they had very high growth on the core, high growth on single serve, good plans on segmentations and returnables, the growth of women in leadership, Coke, no Sugar. There were several aspects. It's not only execution, but there's several special points such as single-serve Coke, no sugar, women in leadership that stood out, female talent and inclusion, customer centricity that stood out, and all of those practises we share in the commercial forums across Coca-Cola fences. So, as you know, we have a new position that reports to me that the Chief Growth Officer, and they create communities or forums across Coca-Cola FEMSA's commercial and marketing team where these initiatives are shared. We were very happy and proud for the Argentina team to be recognised with this cup. It's the first time anyone from Latin America has been recognised with this worldwide award from Coca-Cola.

Sergio Matsumoto: Great. Thanks for that colour.

Gerardo Cruz: Thank you, Sergio.

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

Fernando Olvera: Hi, good morning. Thanks for taking my question. My first question is starting on a consolidated basis regarding the 1 billion digital sales that you reached in the first half of the year. If you can comment what was the breakdown by country and where do you see the main opportunity? My second question is related to Mexico, if you can share your thoughts of how they are performing the different types of projects that you are doing in the traditional channel, as well as in the BTC and B2C platforms. Thank you.

Jorge Collazo: Hello. It's Jorge here. On your first question regarding the sales on the digital revenues. Basically, what we have seen there, Fernando is, to reach to those billion sales, we've seen a high level of growth coming from Mexico. So Mexico, to give you a little bit of the sense of the breakdown, basically represents about $360 million out of those billion in sales, but that's a very rapid increase. Mexico has been increasing as we have been speaking before now very fast in the rollout of Juntos+. and there's a very similar number coming out of Brazil approximately 370 million in digital sales coming from Brazil.

The rest Fernando, is split between the rest of the countries. We have Colombia catching up as well with around 30 million, and the rest is split between the rest of the countries, but as you can see, most of this is coming from the level of growth because of the rollout of Juntos+ that we are having with Mexico and Brazil.

Gerardo Cruz: Yes, and this has been the big focus of two large markets, and that's where we're focusing on for the version four and then the rest of Latam. So I think for us next year, the rest of Latam will be a nice upside for our Juntos+ platform and we want to concentrate the rest of this year, and I would say the first quarter of next year on both Mexico and Brazil, which are the biggest countries for us so far.

Fernando Olvera: Regarding your type of project in Mexico?

Ian Craig: So far so good, Fernando we're adding more partners every day. I think roughly, we're around 14 partners. I don't remember the, the amount of partners that we have in Mexico so far, but in Mexico, our footprint is so much larger than any other competitive platform. Then I know we're signing up the largest players well ahead of our competition. We're very positive on that. As you know I have mentioned that for these offerings to be of scale, we will need at least five to six years for this to be around 5% of revenue as we're growing our core business. Year over year, and we expect to be in growth mode, it's always a challenge for this to become relevant. In Brazil, this gets to around almost 2% of revenues because we're growing as well. In Mexico, we're going to be hitting 1% of revenue, so they're still small, but when you look at that multi-category piece, it's doubling its size every year, just that we're growing the base business as well. So you guys need to have some patients until we reach that ambition that we have to get to 5% of our revenues. At the rate that we're growing our, our core business, even though this is accelerating as well, it is going to take its time.

Fernando Olvera: Thank you so much for the colour.

Ian Craig: Thank you.

Operator: Our next question comes from Alan Alanis of Santander.

Alan Alanis: Thank you very much, and congratulations on the results, Ian. A couple of questions. One of them is regarding the lower price of the commodities, the sugar, aluminium, and so forth, and the strength of the peso. Could you expand a bit more on terms of how much hedges are you extending your hedges beyond what you usually do and how much you have already taken advantage of these lower prices of commodities and the strength, particularly on the Mexican peso? That would be the first question, and [inaudible] Argentina is, could you remind what exchanges do you use on the consolidation of Argentina into your balance sheet? If you see any risks there given the depreciation of Argentine peso that we have seen in the last year? So two very different questions. Thank you so much.

Ian Craig: Hi, Alan. Thank you very much for your questions. Regarding commodities, for 2023, we are with a very healthy hedging position on PEP basically across all of our operations, and we're starting to build a little bit of position of hedging PEP for next year. We are expecting a benign outlook for PEP and aluminium. So we're being careful to stay within the low end of the range of our hedging objective, but starting to see good opportunities to build a little bit more on those positions. On sweeteners, we're basically hedged for HFTS in Mexico, which is an important component of our sweetener expense sugar. There're a few alternatives that we have, but in Brazil, we also have good position as well as, in Uruguay.

Basically, for 2023, we're a little bit above 50%. Our sugar needs hedge in 23 in both countries. That's a little bit on the actual commodity price. Hedging on the FX front, we have certainly seen a good opportunity in the peso to build up hedging positions. We're basically hedged at 80% of our dollar requirements in Mexico for 23 and being a little bit more careful to start to build positions for 24. Regarding your question of the range that we are able to hedge, we continue to look at a 12-month rolling period for hedging on both commodity prices and FX related to cost of goods sold. So we haven't changed that and we do not expect to change that in the near future. FX hedging for other operations Brazil, Colombia, and Uruguay, we have a little bit or very close to 50% of our dollar requirements hedged for 2023, and also as well as in Mexico starting to build position for the first half of 2024 in line with that 12-month rolling period.

Going into your second question, for Argentina results, we continue using the official exchange rate to consolidate Argentina. The exchange rate that we used for the consolidating of this quarter was 256. 7. We really don't have any other alternatives because we have to comply with the official exchange rate for purposes of consolidating that business. We understand that a portion of the economy transacts at the parallel exchange rate, but most of our business, the raw materials that we require as well as the capital assets that we require for our business are still done at the official exchange rate. So, we understand that this represents a source of uncertainty, but that's the exchange rate that we have to use to consolidate that business.

Alan Alanis: That was a very [inaudible] very comprehensive answer. I really appreciate it. Thank you so much.

Ian Craig: Thank you, Alan.

Operator: The next question today comes from Antonio Fernandez of Barclays.

Antonio Fernandez: Hi, good morning. Thanks for taking my question. Congrats on your results. My first question is regarding pricing going forward and overall elasticity that you've been seeing in Mexico, and just a quick follow-up on the Juntos+ penetration in terms of customers. Thanks.

Gerardo Cruz: Thank you, Antonio. First on, on your first question regarding pricing, as we talked about in the previous few calls, we're trying to focus on sustainable growth in basically in all our territories and specifically in Mexico. As Ian mentioned during the script of the call. We have been facing share pressure in the past few years, so we're trying to stop that share erosion, and recover competitiveness in our portfolio. We understand that our main objective and the way that will continue to improve performance and return of our businesses through growth, and I want to underscore the word sustainable growth. In that sense, what we're looking at for the foreseeable future is to price basically in line, at least in line with inflation, trying to recover that competitiveness, and we've seen very good data points in these first six months of the year regarding the performance of the share of our products.

Antonio Fernandez: The second question was on Juntos+.

Gerardo Cruz: I think when you talk about Juntos+, you look at it in percentage of orders or about a third of our orders are coming through Juntos+. When you look at that in revenues, this offering goes towards the traditional trade, it's around 16% of our rep total revenue, but when you look at traditional trade revenues, Antonio, it's almost a quarter of our revenues of the traditional trade. We do like assuming on Brazil, which is the country that's first started with this platform, it's already 60% of traditional trade volumes. So, I think that penetration is encouraging, like I mentioned, Brazil is started with this, but Mexico is accelerating fast and next year we should have an uptick in that rest of latam market. So far so good with Juntos+ in terms of both the penetration and the partners that we are signing up.

Antonio Fernandez: Perfect. Thanks for answering that. Have a nice day.

Operator: The next question comes from Luis Willard of GBM.

Luis Willard: Hi, guys, good morning, and thanks for taking my question. So first of all, congratulations on your win of the Candour cup, and my question is on the digital revenue. I apologise if this feels repetitive. As they accelerate and they seem to be doing so nicely, my question is at this point, are you seeing any material difference in unit economics from a digital purchase versus a physical one or a traditional one? and more importantly, if you're seeing those differences already being reflected in your P&L more importantly, on the returns of your business. That will be my question. Thank you.

Ian Craig: Hi, Lewis. Thank you for the comment on the Candour. Like I mentioned, the driver for us is not a cheaper cost to serve, although as you intuitively are pointing out in your question, depending on the market and the labour cost of the different market, it can be all the way on an average of 20% less cost to serve in when it comes to the order entry. Sorry, 20%, 80% less cost to service. It's a big difference. However, this has not been our driver. What we're trying to do is be a higher-growth company. We are intent on keeping the omnichannel model. We're not reducing our feet on the street. The role of the presell changes as far as the more penetration and orders are taken online, then we're freeing up these presells to do more of the execution, the introduction of new products and launches, the bringing of new partners.

We think it's a big advantage to us how we look in the point of sale versus our competition, and that stems from the fact that we are omnichannel because the digital portion of our platform allows us to bring in more business like I said, it's higher. IPS, it's at a lower cost, but really when it comes to execution at the point of sale, having that relationship still makes a lot of difference and for new product introductions as well. The new launches entering into different categories developing cold channels, it makes a lot of difference having those specialised structures and our presells. So we're not seeing a difference in the cost to serve.

Because of that, we're maintaining the omnichannel structure, and like I mentioned, in terms of revenue, since it's still in the incipient stages, it's around 16% of total revenue. It hasn't made that big of an impact so far, but we measured those digital revenues and you can see a larger ticket. In those digital revenues, when you compare them to the traditional or salesman-controlled points of sale, where we look at those control points, we do have an optic. So a portion of that which is not irrelevant, is incremental for us when you do those analysis.

Luis Willard: Thank you. Ian. Now you just gave me too much greater thinking about costs. So I was looking for a ticket and, and higher orders. Thank you. Good day.

Ian Craig: Thank you, Luis.

Operator: The next question comes from Felipe Ucros of Scotiabank.

Felipe Ucros: Thanks, operator. Hi, Ian and the team, thanks for taking my question. Firstly, maybe an update on partnerships for Juntos. Obviously, your partners in Mexico are pretty defined at this point with spin premier, but just wondering if you have made any advancements on talking to partners for loyalty and payments in the other regions that you can give us an update on. Of course, you may not be able to give us an update on the conversation. Just looking for any updates there. Also, a question on Argentina, have you done or are you looking to make any repatriations of capital ahead of a possible devaluation after elections?

Gerardo Cruz: Hi Felipe. In terms of our partnerships on multi-category, like I mentioned, Brazil is around 14 partners, Mexico, 1, 2, 3, 4, around 10 partners. these are partners all with contracts aligned. We're entering different categories. Jorge, you want to comment?

Jorge Collazo: So we are happy and we want to have a curated portfolio.

Felipe Ucros: Understood on the partners that are jumping on the platform. I was looking more for [inaudible] company will help you on payments in the other countries, and the same as a partner to start the loyalty programme in countries outside of Mexico.

Jorge Collazo: No. I was getting to that Felipe. On the services front that we're spearheading out of Mexico. So the focus is getting that done in Mexico, and then we'll be testing that out in the rest of the market. So, no. So far on the service portion, which includes both financial services and loyalty partners, Mexico is still getting that effort.

Felipe Ucros: Understood, very clear. Thank you.

Jorge Collazo: On the second part of your question regarding Argentina and our exposure there, it's certainly not an easy solution. The operation has been growing very importantly. So the first priority for using our capital generated in Argentina is to continue to build capacity to make front to that very healthy growth that we've been seeing. On second alternative, we look for alternatives to invest in assets where we can protect our cash to exposure of FX depreciation, and we certainly continue to see or look for opportunities that we can materialise as our last position in our excess cash to repatriate assets, but that is much more complex because there's no access freely to dollars. We have a small position of our total cash, about 3% of our consolidated cash is concentrated in Argentina. So, it's not a significant impact for the consolidated business, but we certainly focus on looking for alternatives for using that cash.

Felipe Ucros: Absolutely clear. Thanks a lot for the colour on that one, and congrats on the results again, guys.

Jorge Collazo: Thank you, Felipe.

Operator: Our next question is from Alvaro Garcia of BTG Pactual.

Alvaro Garcia: Hi Gerardo, thanks for the call, and congrats for the results. Couple questions on my end. First on beer in Brazil, we saw a nice sequential acceleration there. I was just wondering if you could maybe give us some colour if that was Heineken brands or maybe some of the other smaller brands that you've been ramping up there. Then my second question is on capital allocation of a follow-up to what we discussed on past calls in terms of what I consider a suboptimal cash balance and excess cash balance. What's been your thinking there? Is there any update with regard to a potential shift in how you're thinking about your dividends? Any sort of colour there would be greatly appreciated. Thank you.

Jorge Collazo: Hi, Alvaro, it's Jorge here. On your first question regarding beer, yes, as you mentioned, we saw a sequential improvement as compared with the first quarter, and it comes basically from a combination. No, we have been implementing some plans with Heineken as well together to accelerate the performance of the portfolio. So we have some plans that we have implemented there that are starting to show some results that is so [inaudible] as well, not the brand that we have as well. It's accelerating, it's growing. To give you a sense there, in the first six months, it's growing, 30 plus rate as compared versus the previous year. That's a little bit of what we're seeing in beer. Obviously, it takes time. We know that but the strategy is what we have to continue improving what we are improving now versus the first quarter. That's for sure.

Gerardo Cruz: In terms of capital allocation, we continue to review what's the best structure for us, like I mentioned, we want to first of all fund our growth and if not look at other opportunities. There doesn't seem to be so far any relevant inorganic opportunities out there for us. Depending on how this continues to go, we should have a way to free up this cash. I wouldn't expect anything in the short term. I think that's a decision for next year where we'll be taking that.

Alvaro Garcia: Just maybe one last follow-up on Coke sin Azúcar, I was wondering if maybe you can walk through penetration and how well that product has done. Thank you.

Ian Craig: Yes, Alvaro. It is doing very well. Actually, on the prepare remark, Ian mentioned a couple of points regarding Coke Zero sugar, for example, in Mexico, it's growing double digits year to date. When you look at the mix, it's still on the single digits, but it's growing, it's outperforming. In the case of Brazil, for example, is outstanding. I would also highlight that Ian mentioned also during the prepare remark, 32% if I remember correctly, as compared to the previous year, on the first six months of the year.

There the mix is now reaching double digits. It's a great product, obviously, it's a great brand, and we are executing that and winning in the market. So I think it's very encouraging to see what we're doing with Coca-Cola sin Azúcar across our markets.

Alvaro Garcia: Wonderful. Thank you very much, and congrats again.

Ian Craig: Thank you.

Operator: The final question today comes from Rodrigo Alcantara of UBS.

Rodrigo Alcantara: Hi, thanks for taking my question. Two quick ones, one for Ian, and another for Gerry for. For Ian, thank you very much for the comments on the competitive position in Mexico and let's expect the pricing strategy [inaudible], maybe if you can replicate those on Brazil. and for the case of Brazil and the pricing strategy there, we saw a slight deceleration in the pricing there in Brazil in real terms and talking about [inaudible] growth rates.

So just curious of, what's driving that? What drove that deceleration? My second question would be for Gerry, labour expenses concentration of being a topic more for retail industry, but we have seen any more relevance for borders pressuring margins. So I was just curious, this year [inaudible] commend, share with us, in basis points, how much of your margins have been eroded by your increasing labour expenses. If you can comment on that also on the savings that you mentioned at the beginning of the call, for next year, do you see room for more savings coming from logistics? Those would be my two questions. Thank you very much.

Jorge Collazo: Thank you. Rodrigo. On your first question regarding pricing in Brazil, as Ian mentioned during the remarks as well, I think we can definitely see that we're leveraging on the pricing carryover that we have, and also we're cycling pricing from last year that was very solid, and so we do expect that to moderate, we're seeing inflation across most of our markets normalising, and we have initiatives to continue to improve our mix, leveraging revenue growth management, but you can expect that to moderate versus the pace that we had last year.

As Ian mentioned, to summarise the target is to be at least in line with inflation. So partly that reflects on what you're seeing in Brazil. On the other hand. we continue to see on the competitive position that that we're gaining share in Brazil. So obviously also on the margins front, we're seeing easing PT resting costs. So we continue to see space not to be able to be more or less aggressive on that front.

Regarding, Rodrigo, your question on margins in Mexico, basically, the whole explanation of margin impact in Mexico is related to fixed cost and expenses, and specifically labour, is one of the biggest impacts. I would say that of the total increase in fixed cost and expenses, a little bit above, 20% of the impact is related to labour. DME marketing expenses also playing an important role that related to our tactic of recovering competitiveness and positioning our brands to recover share in the market is important. The third, I guess big component there is IT expense as Ian was mentioning in a previous question right now, we're investing importantly in digital capacity and technology. That represents an increase in IT expense, but it is related to one of our main pillars, strategic pillars for growth, and the way that trying to become the preferred B2B platform in our markets.

Rodrigo Alcantara: That's useful. Thank you very much. [Inaudible] that PQ4Q Opex growing at the same rates that we have seen in the last quarters. Is that a fair assumption, meaning 20% or something like that?

Jorge Collazo: Yes. That's a good estimate. It's fair, Rodrigo.

Rodrigo Alcantara: Thank you very much.

Jorge Collazo: Regarding your question about saving, Rodrigo. we're very positive in what we've seen in our capacity to realise the savings that we were expecting for the year. Basically, these savings have been concentrated in both cost to serve, and cost to make. Most of them in cost to make, with efficiencies in our manufacturing facilities related to packaging, light weighting, in packaging freight optimization, also the transformation from resin to bottle. We've seen important savings there.

On cost to serve, we've invested importantly in route efficiencies, and that's provided important savings, operative savings for us.

Rodrigo Alcantara: Okay. That's very clear. Thank you very much, Gerry. Thank you, Jorge.

Jorge Collazo: Thank you, Rodrigo.

Operator: Since there are no further questions, I'd like to hand the call over to Gerardo Cruz, CFO for closing our additional remarks.

Gerardo Cruz: Thank you very much for your confidence and interest in Coca-Cola FEMSA and for joining us on today's earnings call. As always, our investor relations team is available to answer any of your remaining questions, and we look forward to speaking again soon.

Operator: That does indeed conclude today's conference call. We thank you all for participating.

[END OF TRANSCRIPT]