Coca-Cola FEMSA Third Quarter 2023 Conference Call

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Participants
Jorge Collazo – Coca-Cola FEMSA, Investor Relations Director
Ian Craig – Chief Executive Officer
Gerardo Cruz – Chief Financial Officer

Operator: Hello and welcome to Coca-Cola FEMSA Third Quarter 2023 Conference Call. My name is Melissa and I'll be your coordinator for today's event. Please note this conference is being recorded and for the duration of the call, your lines will be in a listen only mode. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you'll be connected to an operator. I'll now turn the call over to your host, Jorge Collazo, Coca-Cola FEMSA, Investor Relations Director. Please go ahead.

Jorge Collazo: Thank you, and good afternoon everyone. Welcome to our conference call to review our third-quarter 2023 results. With me today is Ian Craig, our Chief Executive Officer, her Gerardo Cruz, our Chief Financial Officer, and the rest of the investor relations team. After prepared remarks, we'll open the call up to take your questions. Just one more comment before we begin. Please take note of our cautionary statement. 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 upon 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. Good afternoon, everyone. Let me begin by saying that we are pleased with our third-quarter results. We have a solid quarter delivering double-digit growth in our volume revenues, operating income, and earnings per share. This performance signals to us that we are on the right path with our strategy. We're implementing initiatives across our markets to grow our core business and taking important steps to become our customers preferred commercial platform. With Juntos+, we're also making progress in expanding our customer base as we continue investing to debottleneck our infrastructure and better serve our customers, supporting our long-term growth.

Now, let's move on to reviewing more detail our consolidate results for the third quarter. Our volume growth accelerated in the quarter to 11.6% year on year, surpassing 1 billion unit cases. Our volume growth was driven by positive performance across all of our territories, highlighted by strong growth in markets such as Mexico, Brazil, Guatemala, Columbia, Uruguay, and our Central America Territories. As a reminder, our volumes this year include the integration of Cristal, a bulk water business that we acquired in the southeast region of Mexico. Excluding this integration, consolidated volumes increased 9.8%.
Moving on to expand on category performance, sparkling beverage volumes accelerated to grow 8.5% driven mainly by growth in brand Coca-Cola. Our steel beverage and bottled water portfolios grew a healthy 11% and 24% respectively. Our total revenues grew 10.1% on the back of our volume growth. As has been the case throughout the year, we achieved positive top-line performance in the face of significant currency translation headwinds driven by the appreciation of the Mexican peso. Excluding currency translation effects, our total revenues increased 19.2%. Our gross profit increased 13.6% leading our gross margin to expand 140 basis points. This expansion was driven mainly by top line performance, single serve mixed growth, declining packaging costs, and the appreciation of most of our operating currencies as applied to US dollar denominated raw material costs. As was the case during the previous quarter, these effects were partially offset by an increase in sugar prices. Our operating income increased 15.3% and operating margin expanded 70 basis points. This expansion is mainly explained by top line growth, which was partially offset by increases in fixed costs and expenses such as labor, marketing and maintenance. Finally, adjusted EBITDA for the quarter increased 11.3% to Mex$11.8 billion.

Shifting gears to discuss key highlights across our operations in Mexico, we reported an outstanding quarter. Volume growth was driven by a resilient consumer environment, coupled with our initiative to grow the core business and expand our customer base. Our organic volumes in Mexico increased 9.8%, marking the strongest growth for a quarter in more than 10 years. With this space, we expect to surpass 2 billion unit cases sold in Mexico during the full year 2023. Over the year, our Mexico operation single serve mix has increased one percentage point to reach 35.6%. We achieved this by leveraging a deeper understanding of our consumer’s consumption occasions, focusing on multi-packs and affordability. Additionally, we continue focusing on customer service, reducing shortages, and improving our sales and delivery service metrics. Over the year, we have attained more than 28,000 new customers. Finally, Juntos+, our digital B2B platform, now serves more than 480,000 monthly active buyers in the country for 66% penetration of our traditional trade customers.

Before moving on to South America, I want to take a moment to discuss a few highlights from our Central America South Territories, which include Panama, Nicaragua, and Costa Rica. As you can see in our earnings release, these markets are achieving double-digit growth supported by improving customer sentiment, remittances, and the initiatives were implemented to win in the market. In Costa Rica, the rollout of our universal returnable bottle is enabling us to gain share in flavors, while brand Coca-Cola grew 11% in this market. We’re also progressing in the rollout of Juntos+ with more than 30% of our traditional trade sales being done digitally. Finally, on the sustainability front, we are very proud that the first certified zero-waste distribution center for the Coca-Cola system is our Belen operating unit located in Costa Rica. We’re encouraged by the growth per perspectives across Latin America, and we continue investing to capture the growing demand that we see in the region for many years to come.

Moving on to South America in Brazil, we continue to demonstrate consistent results focusing on growing the core and expanding our customer base by 40,000 new customers. As we have mentioned in previous calls, an important growth driver in is Coca-Cola FEMSA[?]. During the quarter, we maintained a double-digit pace by growing more than 25% versus the previous year. Notably, within our Stills portfolio, juices grew 17%, isotonic grew 37%, and energy grew
40%. This performance is enabling us to continue strengthening our market position in emerging high growth categories.

Regarding innovation, we strengthen our alcoholic ready-to-drink offering with the launch of Jack Daniels and Coca-Cola during the quarter. Finally, on the digital front, we achieved 260,000 active monthly buyers. Perhaps more importantly, we're encouraged by the rollout of the 4.0 version of our Juntos+ app. This new version substantially improved user experience. In just over a month since it's launched, we have switched more than 60% of our monthly active purchasers to the new version of the app. In Colombia, despite an inflationary environment, our team's focus on the business fundamentals led to gradually improving volume trends of [inaudible], ultimately leading to a solid volume performance during the quarter. As drivers of this growth, we leveraged our ability to segment our consumers and expanded the coverage of our affordability portfolio. This initiatives enabled us to achieve record levels of share in the non-alcoholic ready-to-drink category, as well as a historic single-serve mix.

Additionally, as part of our focus on strengthening our customer-centric culture, we are expanding our customer base and significantly improving our service, enabling the Columbia operation to be one of the top performance in Net Promoter Score within Coca-Cola FEMSA.

Finally, a word on Argentina. During the quarter, we saw worsening consumer environment that was driven mainly by the acceleration in currency depreciation and inflation, ultimately leading to a sequential deceleration in our volumes, which grew 2.6% in the quarter. Although there is high uncertainty, our team on the ground has experienced in managing under adverse scenarios. Our Argentina operations has a resilient business model focused on brand Coca-Cola delivering affordability options and leveraging our scale differential. As we enter the final stretch of the year, we're encouraged by the strategic focus that has enabled us to build and sustain our positive momentum. We're confident in our team's ability to execute our strategy as we continue working together as one single team with our colleagues from the Coca-Cola company to deliver sustainable long-term value growth for years to come. With that, I will have the call over to Gerry.

**Gerardo Cruz:** Thank you, Ian, and good afternoon to you all. Expanding on our division's results for the quarter in Mexico and Central America volumes increased 13.9%. As Ian previously mentioned, we are seeing solid volume performance in Mexico and across all of our territories in the division. Excluding the integration of Cristal's bulk water business, our volume in the division increased 11% revenues in Mexico and Central America increased 15.5%, driven mainly by volume growth and partially offset by the unfavorable translation effects from most central American currencies into Mexican pesos. Our gross profit increased 17.9%, resulting in a gross margin of 47.9%, a 100 basis point expansion year on year. We continue to see sequential improvements in profitability as our top line growth, the appreciation of the Mexican pesos and declining packaging costs partially offset higher sugar prices in most territories.

In the division, operating income growth for the division accelerated to increase 19.2%. This resulted in a 50 basis point mar margin expansion driven mainly by our top line performance and a more favorable packaging cost environment. All these effects were partially offset by higher fixed cost and expenses. Finally, our adjusted EBIT EBITDA in the division grew 14.1% with margin declining 20 basis points, mainly due to an increase in fixed costs and expenses
related to labor and maintenance. The difference in operating income and adjusted EBITDA growth during the quarter and the reduction in depreciation is mainly explained by a one-time adjustment to useful life of certain assets to standardize across our operations that impacted the quarter during 2022.

Now, moving on to South America. Volumes for the quarter accelerated sequentially to increase 8.1%. Double-digit growth in Hawaii and Colombia, coupled with mid to high single digit growth in Brazil offset a sequential deceleration in Argentina. Our revenues for the South America division increased 2.2% as our volumes and revenue management initiatives were partially offset by unfavorable currency translation effects into Mexican pesos. To give you a sense of the magnitude of this currency headwind, when excluding currency translation, our total revenues in South America increased by 21%. Gross profit in the division increased 6.5%, currency neutral, 27.4% leading to a margin expansion of 180 basis points. This performance was mainly driven by volume growth, favorable mix, and easing raw material costs that were offset by increases in sugar costs and the depreciation of the operating income for the division increased 6.7% currency neutral, 28.1%, and operating margin expanded 40 basis points as compared to the previous year. This resulted from our positive top line that coupled with a favorable variable cost and expense environment offset higher fixed costs and expenses such as labor and freight. Finally, adjusted EBITDA in South America increased 5.6% currency neutral, 29.1%, resulting in a margin expansion of 50 basis points.

Now, highlighting our controlling net income, which increased 23% to reach Mex$5.4 billion, resulting in earnings per share of 32 cents. This controlling net income growth was driven mainly by an increase in operating income coupled with a reduction in our comprehensive financing result. Comprehensive financing result was lower year on year, mainly driven by a foreign exchange gain as our net debt exposure in US dollars was positively impacted by the depreciation of the Mexican peso and other operating currencies during the quarter. These effects were partially offset by an increase in our net interest expense, mainly as a result of a tender offer completed during the third quarter of 2022 to partially repurchase debt instruments due in 2030, which lowered our interest expense during the same period of the previous year. Finally, I want to emphasize that a language strategic priority of sustainable growth. We aim to continue reinvesting in the business to guarantee the required capacity to support our long-term growth ambition.

As we previously mentioned, we expect to increase our production capacity by 15% and warehouse capacity by 30% over the next three years. It is important to mention that beyond these investments, our supply chain team expects to continue increasing productivity and capacity with projects such as the layout we design of our warehouses. Just during 2023, we estimate that we have avoided more than $25 million in capacity investment by doing warehouse layout redesigns in Mexico, Brazil, and Colombia. As I mentioned in our previous earnings call, we are confident in our team’s ability to continue generating significant savings and efficiencies with that operator. We are ready to open the call for questions.

**Operator:** Thank you. As a reminder, if you would like to ask a question on today’s call, please press star one on your telephone keypad. To withdraw your question for any reason, please press star two. You will be advised when to ask your question, and our first question comes from Ben Theurer of Barclays. Please go ahead,

**Jorge Collazo:** Ben, I think we can’t hear you.
Operator: Hello, Ben Theurer of Barclays. Can you hear us? Your line may be muted.

Jorge Collazo: If not, I think we can take the next question and then if you can hear us, you can re-enter the queue and we'll get your question then. Thank you.


Thiago Bortoluci: Yes, yes. Hi. Good morning everyone. Ian and Gerry, congrats on the results and thanks for taking the question. There are a few points that I'd like to explore: first pricing. Right? I understand that not only used, but mostly of the Staples operators in Mexico have been broadly cautious with the underlying consumption backdrop, but I think volumes and growth has been surprising us to the upside, right? You are posting double-digit volume growth with operating margins up year on year basis, so going forward, right? How comfortable you are with the opportunities for further pricing and how should we think about the growth drivers, right? How much of the future growth should be volumes, and how much of this should be pricing given that volumes are already arguably well penetrated, right?

This is the first one and the second one, if I may, moving into your cash flow generation, right? We saw a mature improvement on working capital on a year on year basis, and this has released a lot of cash, right? So if you could just elaborate on what was behind this working capital dynamics and more importantly than this, with your cash flow from operations being able to fund all this cap, how should we think about dividends and capital allocation going forward? Thank you very much.

Gerardo Cruz: Hi, Ben. Hi, I’m sorry, Thiago. Thank you very much for your question. I’ll start with the first one regarding pricing and our growth perspectives. And on that sense, we expect to continue focusing on our, and it has been the case in our, in our speeches previously on previous quarter's earnings call, focusing on our balanced revenue growth management strategy, favoring growth. I guess this is the main message that we want to put out sustainable growth is our focus not only for 2023, but going forward and in that way we, we can focus on revenue per unit case going along with inflation as we move forward across our markets and targeting opportunities for mixed improvements. So we are coming from a higher inflation environments and expect easing in general.

As the economies cool down a bit, we are focusing on making sure we have the right price for the right pack at the right channel to ensure that we address consumption occasion. So that's regarding our expectation for pricing going on your, to your second question regarding cash flow, and then I'll touch upon capital allocation in that one. So on the first one, in terms of cash flow and working capital improvement I'm not sure if we mentioned it before, but one of our focuses for results for all of our operations is both the performance and return in the business as well as improvement in working capital. So all of our operations are focusing on ways that they can improve usage of cash in the operations and that has resulted in the good numbers that we're seeing year to date for 2023 and expecting for that to be the case for the full year. I'll pass it on to Jorge to go in deeper into the capital allocation part of the question.

Jorge Collazo: Yeah. Thank you. Thank you, Gerry. And thanks Thiago for the question expanding on working capital improvements. Tiago, I think we can mention two effects as well. One is an improvement in inventory because as we compare with last year, last year, as you know there were concerns around logistics and there were more disruptions no, with regards
to supply, so we had to increase the days of inventory, no, but now we're seeing a normalization, so they're using an improvement in inventories, and the other one is very particular as well to accounts receivable. Actually, last year in Mexico for a few moments, we had some changes with regards to invoicing, electronic invoicing, and that disrupted a little bit on our accounts receivable for a moment, so that also drove an improvement in accounts receivable.

Okay, so those two effects I will point as initiatives that Gerry mentioned as well, that we're driving across our operations to continue improving working capital. I just wanted to provide you with additional color and turning it back to Gerry.

Gerardo Cruz: So in terms of capital allocation, what I want to emphasize, Thiago, is that how we see our priorities in terms of where we're destining our generation, the first one is reinvesting in the business. We're on growth mode in Coca-Cola FEMSA. And this requires to build capacity. I mentioned during the prepared portion of the, of the remarks we're expecting to grow 15% production capacity and 30% distribution capacity in the next three years. That results in an increase, a significant increase in our CapEx investments for, for this period of time going at around 8.5% of revenues for that timeframe.

So that basically uses our current excess cash position. our second priority is to continue to assess in organic growth opportunities obviously with the disciplined financial approach that we've always had on that front. So looking to continue consolidating the system in the region. And finally after these two initiatives are, are consumed we, we can assess alternatives as ways that we can distribute excess cash to investments to investors if we still end up with something there.

Thiago Bortoluci: That's great. Gerry, thank you very much.

Gerardo Cruz: Thank you, Thiago. Thank you.

Operator: And our next question comes from Ben Theurer of Barclays. Please go ahead.

Ben Theurer: All right. Does this work now?

Operator: Yes, we can hear you.

Ben Theurer: Ah, fantastic. It does technology and that's on a Wednesday. So apologize for that interruption early on, and thank, thank you very much for putting me back into the question. So what I wanted to ask about the strong performance volume obviously was outstanding in the third quarter, but just wanted to understand how you think about the growth of volume in the different regions going forward. Are there any signs of normalization early on into the fourth quarter? So just that we get a little bit of a sense of how your, what you said about the sustainable growth algorithm, how that's going to be comprised out of pricing and volume. That would be the first one. And the second one, if you could give us an update on some of the pilot projects you've been working on as it relates to third party distribution. Thank you.

Ian Craig: Hi, Ben, how are you? This is Ian. I'll let Jorge compliment me as he pleases. But volumes, like we mentioned, Ben, when we started is we were adjusting the strategy to not grow based on pricing, but rather on a more sustainable equation of volume growth, gaining share as well with pricing in line with inflation adjusting certain OBPPC opportunities that we have, and also utilizing our advanced RGM analytics. And so far, so good. It's working very well,
and we don't have anything to tell us that things are going to derail or otherwise so far from what we are seeing.

What I will highlight as we mentioned in the quarter is Argentina is starting to see the impacts as expected of having all of the uncertainty regarding the currency and elections. So we do expect a slow down there in Argentina and Guatemala had the impact of the strikes or not strikes of the disruptions on the streets, which are now back to normal. So other than those two aspects, the rest seems to be going along nicely, and there's nothing to distract us from the strategy so far is going along well. Jorge, do you want to compliment?

**Jorge Collazo:** Yeah, I think on that, Ben, I would just say that in general during October, we have seen trends that are very in line with the third quarter. I think the other thing that I will mention is a notable uptake in volumes that we're seeing from Colombia know that, as you know, the first half of the year volumes were basically flattish, and then the third quarter we started to see an improvement, and it's something that we continue to see until today. So that's very, very encouraging. That's, I think, the only point that I would add. And then, Ben, with regards to pilots, I would say that in general, not very similar to what we mentioned during the previous call. We continue to see improvements in with regards to pilots expanding to more regions in certain countries.

But I would say, looking at the long-term strategy that we have the target of reaching 5% of revenues in about five years' time. So far we continue to see that Mexico we're around 1% of revenues, Brazil is around 2%. So that's in general terms what we're seeing. We're testing other pilots here and there. But in general terms, I would say that's the strategy, so it's going well, but it's something that's going to take time because as Ian mentioned also in previous calls the core business is growing at the fast rate.

**Ben Theurer:** Okay, perfect. Well, thank you very much and congrats again.

**Jorge Collazo:** Thank you, Ben.

**Operator:** Thank you. Our next question comes from Ulises Argote of JP Morgan. Please go ahead.

**Ulises Argote:** Hey, thanks so much for the specific questions. Just wanted to touch base with you on market share dynamics, particularly in Mexico. We had seen obviously some pressure there some, some shift with the and all of that. Just wanted to get your updated views and thoughts there as to how this is evolving and how this kind of fits in with the revenue growth management strategy that that you were commenting earlier as the, as the core focus for how to drive growth in the operations. Thank you.

**Ian Craig:** Alright, thank you, Ulises. In terms of Mexico share as I had mentioned before, we had a context of five years of losing share before we got to here where we were losing about a point of share over the last five years, and this year we've seen a very nice turnaround. These strategies is showing results, and I would say we're not only gaining share, but above last year's levels. So we're gaining share in a substantial way that we are comfortable with. We we're not going to go all out and start some sort of a war. It doesn't make sense for us or for the market that will be very disruptive, but the strategies that we've done with the OBPPC adjustments, with the launches that we have, they're working well. So the trend has been reversed. That's what I can say, Ulises.
Ulises Argote: Okay. That's super clear. Thanks so much for that. And then a follow up if I may just on kind of the cost and the hedging structure. Obviously, we're starting to see some of those benefits already being reflected in the quarter. But if you can give us like an update on what to expect ahead, where are the hedges kind of trending for the, for the next couple of quarters and into 24?

Gerardo Cruz: Hi Ulises. I'll take the hedging part of the question. In terms of FX right now as we've disclosed previously, we have a process that has a 12 month rolling hedging strategy. And as we get closer to 2024, we expect that our FX position for the year will be hedged at a range between 30 to 50% of our FX exposure for all of our currencies. So, that's our regular process. Right now we're not very concerned in terms of FX as we are seeing favorable FX environments across. So we think that we have, with the exception of Argentina, of course, we have good opportunities to put those hedging positions on for next.

Regarding commodities, as of today, we have a very good hedge position for both HSCS and aluminum for our Mexico operation. We are still building a better hedging position for aluminum in Brazil as well as sugar in Brazil. And for PET where we've been seeing a favorable environment up to now, we expect to increase our hedging position for next year to around 50% just taking care of risks that we are seeing geopolitical risks that could affect oil prices and that should lead to higher PET prices moving forward, forward. I think s with regards to trends and especially as we approach the end of the year and some general comments with regards to 2024, I would say that the only watch-out that we have been looking at is higher sugar prices. As we mentioned in the release, we are seeing higher sugar prices across our markets. If there are markets like in Brazil where we do have a hedge position or that should help us mitigate, but certainly is one commodity that's higher year on year, and we expect that to continue during 2024.

Ulises Argote: Okay. That is perfect. Thanks so much for [inaudible].

Gerardo Cruz: Thank you.

Operator: Thank you. Our next question comes from Luis Willard of GBM. Please go ahead.

Luis Willard: Hi guys. Hi, Ian, Gerry, Jorge, thanks for taking my question. So I just wanted to clarify a figure that I heard in your prepared remarks, you said that Juntos+ in Mexico is serving or has a 66% penetration of traditional trade. Is that, is that number of customers? I imagine so. Or is it sales?

Gerardo Cruz: Could you listen to the question?

Luis Willard: Perfect. So would you say that a significant part of the benefits from digitalization recurrence of orders, size or drop sizes per visit, etc., are already baked in your, in your top line in Mexico, or do you still see plenty of more opportunities there to enhance top line?

Gerardo Cruz: Could you repeat, please? Sorry.

Luis Willard: Yeah, I'll, is it better?

Gerardo Cruz: Yes.
Luis Willard: Alright. So 66% penetration of orders are digital. My question is, would you say that a significant part of the benefits that you expected from the license, the tray be it, or the recurrence size of these orders or drop sizes per visit are already baking your top line? Or do you still see more opportunities to enhance your top line in Mexico as a result of digitalization?

Gerardo Cruz: No. I see what we've done so far is bake into what you've seen so far, but I think we, we do see still a lot of upside. We're only launching the 4.0 version of the app in Mexico in this quarter. So there's still a lot everything is primarily done, or the vast majority by, by our chatbot. So we're going to be launching the app in Mexico with a loyalty plan, and that's going to be a big boost. And at the same time, we're also going to put in flexible out-of-route distribution once the app gets in. That'll probably be in by the fourth quarter. And what we've seen in other markets, such as Brazil, when that happens, is we get increased frequency and an uptick in sales. So I would say no, there's still an upside.

Ian Craig: And I wanted to go back to correct myself on the, on the percentage, actually, the 66% it is clients on the traditional trade, no. And then if you look at orders that number is around 34% of total orders in Mexico that are digital today. Okay. Just wanted to go back and clarify that point.

Luis Willard: Perfect. Thank you. Thank you very much for the clarification. So having all only the chatbot doing primarily the digital function here, is it fair to assume, so as you said, we're only seeing the low hanging fruit of this digitalization thing?

Ian Craig: Yes, yes. Like I said, there's an uplift that we expect from the loyalty plan and also from having the flexible delivery also to consider. Thank you guys. You have to keep in mind as this progresses we, we expect to be able to take advantage of all the data that we're going to be getting from the market to improve the quality of our top line, not only the frequency and the KPIs that Ian mentioned, but the quality of the top line based on getting all that feedback from, from the market from that 4.0 app that is going to in place throughout the whole next of next year. Alright. Yeah. So that's

Luis Willard: Key. Perfect. Thank you, Ian.

Operator: Thank you. Our next question from Ricardo Alves of Morgan Stanley, please go ahead.

Ricardo Alves: Thank you very much. Hello, gentlemen. Thanks for the call. A couple of follow ups. The cost and margin outlook for 2024, I'm looking for a net-net potential impact that you foresee with the comments that were made on the hedging side. On one hand you have sugar as a big question mark for investors to the point that Jorge was making potentially a big headwind in the near term, but then the future is already pointing out in the second half of next year to lower prices, potentially a little bit of a tailwind. And then you have the complexity of more favorable pt to the point that Gerry was mentioning in aluminum prices, favorable effects as well. But on a net-net basis, what do you think the message is for us in terms of modeling your, your margins for South America and Mexico into 2024, when you think about the hedges that you already have in place, but also when you think about how tactical you can be on hedges on, for example, sugary based on the futures, or to the point that Gerry was making on being more, more tactical in PET as well, difficult to come to terms with what's going to be the net net. Sorry for the long question on that.
My second one is on beer in Brazil. It seems that you guys seem to, to continue to gain back share. So just an update on that. We, we hear different things on the market, Tigers struggling, Eisenberger booming but wanted to hear from you, what are the main drivers? Appreciate that the base is low, we always talk about that. But the reality is you are getting back to your fair space in the market. you are gaining share. Is it a brand issue? Is it a channel? pricing has been actually a big noise today with Heineken numbers. So just, just a little bit more granularity on Brazil beer as well. Thank you very much.

**Ian Craig:** Thanks, Ricardo. I'll start it out. With, with our outlook for prices, FX impacts raw materials. I think, as Jorge mentioned in the previous question, we are concerned of what we're looking at for sugar, I think mainly driven by the supply side of the sugar market. We are expecting to see significant pressure in sugar prices as compared to what we saw this year. The rest of our raw materials specifically related to packaging, we, we see flattish scenario as compared to our hedged position that we had this year. So we don't expect major disruptions from packaging. We do expect a more complex environment in sugar in FX. I would say the net effect also as compared to our hedge position this year should be flattish.

We don't expect significant volatility aside from Argentina and in the rest of our operations. So we, we wouldn't expect to see major disruptions in margins back from, from the FX portion. Jorge, I don't know if you want to add anything on that.

**Jorge Collazo:** Well, with regards to cost, Gerry, I think that pretty much know co covers it. perhaps moving on to the question with regards to beer in Brazil, and as you mentioned, Ricardo, Heineken reported this morning, so we would say that pretty much in line with what they mentioned we are seeing an improvement versus the start of the year, no, pretty much in line with the second quarter. And the main drivers of this also, again, then again line with the, with the comments, we continue to see the trends of premium and mainstream portfolio that continue to have a stronger momentum.

And actually, just to give you a sense, back in about 2015, the premium segment in Brazil was about 10%. We, we estimate and that today is about, it's over 30% of the market so that gives you a sense of how important and that part of the portfolio, that part of the industry has been, has been growing. Having said that we continue with our strategy. This includes expanding coverage of the brands of our portfolio. We're leveraging strategies with RGV, with returnable glass bottles. But it's a strategy that, that, that takes time. You know, with regards to share, I'll turn it over to Ian. I think he can definitely provide more call. Both volumes and, and share are we're expecting flattish. It's, it's a tough market with tough competitors a lot of switching between brands, which I won't go in into detail, but so far I, where we're staring now is flattish shell sales for us.

**Ricardo Alves:** Thank you very much, everybody.

**Operator:** Thank you. I have question comes from Alan Alanis of Santander. Please go ahead.

**Alan Alanis:** Thank you so much, Ian, Gerry, Jorge, congratulations. Very, very impressive results. And thank you for taking my question. I want to go back to the question around Mexican volumes, but from a different angle. And let me put it a bit into context. the biggest pushback from investors regarding bottlers. So one of the biggest pushbacks is the lack of volume growth. And you, you're just breaking that paradigm that that volume cannot grow at the level that you're, that you're delivering. If my calculations are, right, your volumes are already 14% of
all pre pandemic levels, and Mexico was already one of the highest per capita consumption countries in the world be, before the pandemic. So I want to dig a little bit deeper in terms of how you're breaking this paradigm. If you could give us a couple of examples of the RDM analytics and how you're using them, Ian, and also, if you can just clarify and explain a little bit more. I think you, you said 20 or 28,000 new clients in Mexico. Where do these clients came from? You already spoke about market share and that was very clear. So I'm going to ask about that. We can see pricing, but what we cannot see is this effectiveness or this strategy, or the strategies that you're following around RDM analytics and, and where are you getting 20 or 28,000 new customers in Mexico? That would be my question. And again, congratulations, man.

**Ian Craig:** In your sir. Hello, Alan. How are you? there are many, many pieces of information to, in your question, so I'll go about it without prioritizing the size of the different buckets in the answer. But, but okay. I'll tell you about this. When, when we got into to manage the company, we tried to do an assessment of the growth opportunities that we had. We came above those in several ways. In the case of Mexico. One was recovering share, which you've mentioned and talked about because we had lost five points over there. So those were out there for the taking. There were other opportunities on RDM analytics where we had, you know glaring opportunities in our one way family size OBPPC, which we adjusted, okay. We had inter channel opportunities in our 600 ml.

We had certain buckets that we weren't addressing in flavors. So we've been making those adjustments to our three liters, to our flavors portfolio to our cost channel pricing. And we have, we're very fortunate in that we have a Coca-Cola company as our exclusive partner with very powerful brands. So once we were making those adjustments, also making better use of our DME investments as well. And then coupled and I don't want to minimize this, coupled with the investment that we're doing to DeVol make our infrastructure, because we had a significant unavailability in last year, which was reduced by half. So when you add all of that, you're seeing volumes respond quite nicely share respond as well. And we we're very confident that, and by the way, also single serve mix respond as well.

So, so far, so good. It's going well. And for the doubts that we had out there per capitas are increasing penetration is increasing in households. So we had a lot of, of hyper capitas, but those are increasing. And then when we decided to validate all of our growth assumptions on a macro level, so we run model based on disposable income, population growth, and many other high level variables, it matches perfectly for Mexico. There's a lot of disposable income growth that is going to be coming in, even more so in the regions that where we're located and the volumes that we're seeing match up nicely to our macro economic crosscheck model that we have. So let's say we came about it bottom up with a strategy with RGM and OBPPC opportunities, and we validated that with a growth algorithm based on larger variables and they do check. So we're going after those volumes there. And after that share and you're seeing the results, I think it's, in our opinion, it's a more sustainable model than pushing pricing and losing relative scale, which is what was happening in the last five years.

**Alan Alanis:** No, and it's clearly working and it's clearly working. Just a quick follow up on that, you, you're increasing penetration and coverage. Could you expand a little bit of where and how, because you found co you find Coca-Colas in Mexico everywhere. Where are you getting the new clients or the new penetration? That would be my last question. And again, congrats.
Gerardo Cruz: We recovered a lot of clients that, let me put it this way, primarily in the on-premise segment, okay? There were a lot, it was the one that suffered the most during the pandemic. And even by the start of the year, our client counting on-premise was below pandemic levels in on-premise, not in modern trade. Modern trade was already above, like you correctly pointed out. So we're making a big push in on trade to recover those clients. Also when we started focusing on customer service and we rolled out our, what we call our sales service metric and our delivery service metric, we found out that there were a substantial portion of a small server and bronze outlets that we weren't servicing consistently. So when you're having certain an availability issues, you focus on large clients. And now where, where that is being part of the compensation of everyone and focusing on how we're doing on our commercial and distribution service metric, all of our sudden, our client fulfillment and satisfaction scores are going up because these clients are being serviced directly and we're finding more clients.

So there are a lot of things that we did to incentivize all of these clients. We don't include them in our execution survey the first year. They, so there were a lot of wrong incentives to increasing our client base, and we're removing those incentives and actually putting incentives toward increasing and better serving our client base.

Alan Alanis: No, that makes all decision in the world. Yeah, exactly. The return of the on-premise after the pandemic, and you're taking the opportunity to serve them in a different way. Congratulations. Thank you so much. That was very, very clear.

Gerardo Cruz: Thank you, Alan.

Operator: Thank you. Our next question comes from Alvaro Garcia of BTG Pactual, please go ahead.

Alvaro Garcia: Gerry, Jorge. Congrats in the quarter, great results. Two questions. One for Gerry. Just a quick for housekeeping. You mentioned in your prepared remarks sort of commented on the differences between the change we saw in depreciation and the differences between EBITDA and EBIT, and then we also saw higher operating expenses in the quarter. Is that related? I'm not sure if that was related, if that sort of explained that difference or if the other operating expenses were something else. So more color there would be great. And then my second question would be, I guess for Ian or whoever would want to take it on back to Mexico and back to the very impressive volume performance. And I guess just a very simple question of was this a COK system decision both in Mexico and in Brazil, or was this KOF specific decision to really emphasize volumes? Thank you.

Gerardo Cruz: Thank you very much, Alvaro. I'll start with the first one. It's two different issues. The first one that I clarified in the prepared remarks is related to an adjustment in useful life of assets that was done in the third quarter of 2022 to standardize the useful life across our operations that resulted specifically for our Mexico cooperation and a depreciation negative impact in 2022. So the base the negative base that we have to compare resulted in a better EBIT number for this year as compared to our EBITDA number. So that's the one that I mentioned in the prepared remarks on the other operative expenses the reason that explains that movement in other operative expenses is the impact of the depreciation of the Mexican pesos that we saw during the quarter.
We ended up the previous quarter at a very high Mexican peso number, so for the quarter, the peso depreciated. And that resulted in a Mex$97 million impact in other operative expenses. That explains the other part of your question.

**Ian Craig:** Hi, Alvaro. With regards to the Mexico strategy, the analysis of where our competitive position was, was done together with the Coca-Cola company. And we were looking at the point where, where we, if we kept pushing along the prior strategy we would've lost relative scale, which would've then made it more difficult to keep having a differential in our relative prices. And it would just have gone into a vicious circle. So we needed to reverse that. And what we're looking at is really sustainable revenue growth.

And that by definition is a different equation for volumes and share. But we are looking at the revenues just that we want to do that in a sustainable format and not something that we're doing it by pushing pricing, which has there's an end, there's an end where you lose relative scale going to that strategy, and you actually make it more difficult to yourself to have a better, a relative better market position. So it was done together with the Coca-Cola company to focus on this sustainable revenue growth.

**Alvaro Garcia:** Very much. And congrats again.

**Operator:** Thank you. Our next question comes from Carlos Laboy of HSBC.

**Carlos Laboy:** Yes, good afternoon everyone. Ian, your answer to Alan spoke to perhaps penetration. Can you expand on service some more? You mentioned that NPS numbers in Colombia were, were very strong. I don't know if you can share with us the what those scores might be and how they've improved in Columbia, Mexico, Brazil over the last couple years, but what actions do you think are most driving this this level of trust from, from store owners and their perception of good service? I'm curious, what do they do for you that may be helping you gain volume and market share as well? What concessions, what kind of things do you get from them as a result of improved service and trust?

**Ian Craig:** Hello Carlos, how are you? I think the biggest change for us and you know, we were doing this already in Brazil, was really measuring how we're doing with our customers instead in terms of our sales and both our delivery. And it's one thing to look only at Amazon says this a lot at, at the hard figures of the data our field rates and such, and it's quite a different thing to survey your customer as well and see what he has to say. So we developed two, now three indicators on our sales service metric. Our sales function is doing delivery service metric, our delivery function is doing, and our digital service metric as well for our platforms and these metrics they not only take into account hard data such as on time in pool indicators that we have, but they also survey the client.

So we survey and ask them did you get what you asked for? did you get it in time? Was it in quality? Are there any, we look at the complaints rates, how are the complaints being serviced? Are they closed all of these complaints with satisfaction or not, or what are they just answered? So all of that requires a big adjustment in the size and processes of our customer service area. And it starts to show up in clients being happier when they're using our platform and where they're dealing with our sales people. And it generates a lot of focus for our supply chain folks to deliver to all of the clients and not just focus on field rate in large clients, but all across. So I think the biggest change was, is measuring and putting that as part of the objectives and the compensation of the team, and it shows up and we are firm delivers that the companies that
are going to work perform are those that are preferred by their clients. It's sort of a precondition for us. Carlos,

Carlos Laboy: Thank you.

Operator: Thank you much. Alright, last question comes from Rodrigo Alcantara of UBS Please go ahead.

Rodrigo Alcantara: Hi, good afternoon. Thanks for taking my question. Ian, Gerry, Jorge. So the first one would be we spoke a lot about strategy during Mexico, right? Very clear the results and how is it evolving, right? Just taking the same discussion there to Brazil, right, where it appears that you have been achieving both by the goods price gravity per unit case and also balling. So I was wondering also, you can comment on what would be, or you can summarize, but the commercial strategy there in Brazil. And the second one would be more on leverage targets, let's say in, we know you say, right, that you're going to raise your CapEx on capacity additions and so on, right? we also know that the M&A opportunities always there, right? So just curious on which level, but at the same time, your, your cash balances are, are, are, are quite, quite solid, right? So just curious if you have any, any idea or any target for next year regarding how levered you want to be to anticipate you know, dividend distributions, et cetera, for next year. those would be my, my two questions. Thank you.

Gerardo Cruz: Hi, Rodrigo, how are you? in terms of Brazil, the strategy has, has been the same over the last couple of years. You know, a big push on Coke, no sugar also growing single-serve that's growing 26% or so in Brazil, if I remember correctly. Single-serve mix as well. I think we're gaining about one point of single-serve mix. We should be around 25 and still 10 percentage points below Mexico. So there's plenty to be done there to get to a rather portfolio makeup like Mexico or Guatemala. And then we decided to concentrate on growing profitable NCB. So there was a big realignment in the NCB portfolio in Brazil. And all of those segments isotonics I think it's almost 40% growth peas growing as well.

Energy, I think that's 40 juices, which are now were basically out of the premium juices, which were not very profitable and more into juice drinks and low content use. Also growing double-digits. Remember we had a big adjustment in our supply chain strategy for uses in Brazil, so that's just normalized this year. So I would say it's a continuation of the strategy, and it's doing well for us. It was a tough year at the beginning of the year share wise, and it's been starting to respond over the last couple of months. And as you know, bra Brazil continues to be for us, where we roll out all of our newer digital offerings and our multi-category strategy. So we have multi-category growing 50%, we have the rollout of the 4.0 version happening first in Brazil. they're always very flexible folks you know, willing to try out new things and things are going well in Brazil.

On the second part of your question Rodrigo regarding leverage just very quickly to point out even though you saw us end up 2022 with a considerable excess cash position. Now looking at our growth perspectives, our excess cash basically goes to zero in the following years with our plans of expansion and, and commitment to growth. And I guess you, you hit the nail on the head. our issue is a leverage issue. Even in that projected scenario, we see our leverage continuing to get lower. So we certainly have to address our low leverage perspectives. Having in mind that our required investments for our organic growth does not solve the leverage issue. The second issue that we're going to pursue actively, but very disciplined is inorganic growth.
We, we certainly in the same sense that we want to grow our business and has been highlighted throughout the call how the numbers are delivering. We also want to grow in organically and we want to continue to consolidate the system. So that’s going to be a priority going forward. After that, if nothing materializes, we can certainly take into account any users of cash to redistribute to our investors, but that’ll be the third priority in that order.

Rodrigo Alcantara: That, that's clear. Thank you for the answer, Gerry, Ian.

Operator: Thank you. As we have no further questions, I would like to hand the call back over to Ian Craig, please go ahead.

Ian Craig: Thank you very much for your interest in Coca-Cola and for joining us on today's call. please be reminded that our investor relations team is available to answer any remaining questions. We look forward to speaking to all of you again soon. Thank you.

Operator: Thank you. That concludes today's conference. You may now disconnect.

[END OF TRANSCRIPT]