Coca-Cola FEMSA Second Quarter 2024 Conference Call

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Participants

Jorge Collazo – Director of Investor Relations

Ian Craig – Chief Executive Officer

Gerardo Cruz – Chief Financial Officer

Operator: Good day, and welcome to today's Coca-Cola FEMSA Second Quarter 2024 conference call. Throughout today's presentation, all participants will be in a listen only mode. Later, we will conduct a question-and-answer session. If you wish to register for a question at any time, you may press star one on your telephone keypad. And now, I'd like to hand the call over to your host, Jorge Collazo. Please go ahead, sir.

Jorge Collazo: Thank you. Good morning, everyone. Welcome to this webcast and conference call to review our second quarter 2024 results. Joining me this morning are Ian Craig, our chief executive officer, and Gerardo Cruz, our chief financial officer. As usual, after prepared remarks, we will open the call for a question-and-answer session.

Before we proceed, please allow me to remind all participants that this conference call may include forward looking statements and should be considered 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. For more details, please refer to the disclaimer in the earnings release that went out this morning. With that, let me turn the call over to our CEO. Please go ahead, Ian.

Ian Craig: Thank you, Jorge. Good morning, everyone. Thank you for joining us today to discuss our second quarter results. Let me begin by saying that I am encouraged by the progress we are making across the priorities we set for the year. For the second quarter, we continued building on the growth momentum of our core business, increasing our consolidated volumes by 7.5% year on year while driving double digit top and bottom-line growth. We're also progressing on becoming our customers' preferred commercial platform with Juntos+.

During the quarter, we finished rolling out the new version 4.0 of our app in our two largest markets, Mexico and Brazil, while beginning its rollout in Guatemala, Panama and Colombia. Now, more than half of our total customer base are digital buyers. Importantly, we are taking significant steps in deploying Coca-Cola FEMSA principles, the foundation of the culture that we envision for our long-term growth and success.

Although a positive quarter, our resilience and ability to respond to challenges was put to the test as we faced unprecedented flooding in the state of Rio Grande do Sul in southern Brazil. I want to take a moment to express our heartfelt support to all of the people affected by these events, and to recognize the leadership and swift actions taken by our team to ensure the well-being of our Brazilian collaborators, as well as their families, and to provide effective community support. Our team mobilized quickly to ensure business continuity and minimize disruption. I will expand on these actions later today when I touch on Brazil.

During our call today, I will summarize our quarterly results and provide an update of key developments across our territories. Then, Gerry will walk you through our division's performance, closing with an update on the progress we are making to add capacity across our operations, aligned with our strategic pillar to remove infrastructure bottlenecks and digitize the enterprise.

Moving on to review our consolidated results for the second quarter. Our volumes continued their positive moment increasing 7.5% year on year. This increase was driven mainly by the strong performance achieved in Mexico, Brazil, Guatemala and our Central America South Territories, which offset volume declines in Argentina and Uruguay. Our strategies to grow our core business continue driving results. Sparkling beverage volumes grew 6.8%, driven mainly by brand Coca-Cola's 7.8% growth. Still beverages grew 13.2% and bottled water grew 13.4%.

Total revenues for the quarter grew 13.1%, reaching $69.5 billion, driven mainly by volume growth, offsetting an unfavorable currency translation, mainly related to the depreciation of the Brazilian real and the Argentine peso as compared to the Mexican peso. On a currency neutral basis, our total revenues increased 17.9%. Gross profit increased 17.2% to $32 billion, leading to a margin expansion of 160 basis points to 46%. This increase was driven mainly by the operating leverage resulting from our solid top line performance, coupled with favorable packaging costs and hedging strategies. These effects were partially offset by higher sweetener costs and the significant depreciation of the Argentine peso as compared with the previous year.

Our operating income increased 13.8% to $9.7 billion, with operating margin reaching 14%. As was the case during the first quarter, our operating leverage and cost and expense efficiencies enabled us to protect margins, offsetting extraordinary expenses related to the flooding in the south of Brazil, as well as increases in freight, labor and maintenance. Notably, this quarter also includes approximately $400 million related to a non-cash operating foreign exchange loss driven by the quarterly depreciation of the Mexican peso. By normalizing the extraordinary effects related to the flooding in Brazil, our operating margin would have expanded 30 basis points to 14.2%.

Adjusted EBITDA for the quarter increased 21.7% to reach $13.9 billion, and EBITDA margin expanded 140 basis points to 20%. The difference between adjusted EBITDA and operating income is mainly explained by the increase in non-cash expenses related to the $400 million operating foreign exchange loss that I previously described.

Finally, our majority net income increased 13.8% to reach $5.6 billion. This increase was driven mainly by operating income growth coupled with a decrease in our comprehensive financing result. This decrease in comprehensive financial result was driven mainly by a foreign exchange gain that resulted from the depreciation of the Mexican peso during the quarter, as applied to our dollar cash position.

Now, let me expand on our operations highlights for the second quarter. In Mexico, the implementation of our long-term sustainable growth model, coupled with favorable weather and a resilient consumer environment, supported our 7.9% volume growth for the quarter, reaching 600-million-unit cases for the first time in our franchise history.

Additionally, thanks to the efforts of our supply chain team to add capacity and generate productivity, in May, we broke the record of historic monthly production that we had previously established in March, producing 198-million-unit cases. Efforts to satisfy unserved demand in the southeast region of the country prompted us to relocate a production line to the city of Villahermosa, which began production last June, bolstering our capacity in this important and growing region of the country. However, as was the case during the first quarter, that demand we saw continued to exceed our installed capacity, generating stockouts and limiting our share recovery efforts.

Finally, an update on Juntos+ in Mexico. As I previously mentioned, we finished the rollout of version 4.0 with more than 335,000 active buyers in the new version of the app effectively digitizing more than 50% of our customer base in the country. We remain confident in Mexico's momentum and in our team's ability to resolve capacity constraints and continue delivering solid results as we enter the second half of the year.

Moving on to Central America, volumes in our Central America South Territories, which include Costa Rica, Nicaragua, and Panama, increased 6.2%. In Costa Rica, our commercial initiatives continued driving volume growth. For instance, to complement our single serve offerings, we introduced a 250ml presentation of Sprite Fresh and Fuze Tea. In addition, our multi-serve packs grew 8% year on year as we focused on the execution of refillable and one-way presentations to capture the important meals occasion.

Moreover, in Costa Rica and Panama, we launched alcoholic ready-to-drink cocktails in two flavors, Schweppes Gin and Tonic and Schweppes Vodka Citrus to capture growth in this emerging beverage category.

Finally, in Nicaragua, we delivered a solid second quarter. Brand Coca-Cola continues outperforming with double digit growth, supported by strong performance in both single serve and multi-serve presentations.

Notably, with brands Monster and Fury, our Energy Portfolios volumes grew more than 50% year over year, capturing value share. We are convinced that there are many growth opportunities in Central America to continue capturing growth, profitability and are accelerating our digital transformation.

Moving on to South America. As I mentioned during my introductory comments, the South of Brazil experienced the worst flooding in the region's history, affecting approximately 2.4 million people. In this challenging environment, our team rapidly activated crisis protocols focused on ensuring our collaborators and their families' safety as the utmost priority. Among other actions to support our team in the region, we donated food and water, advanced salary payments and made vaccines available. In the words of Don Eugenio Garza Sada, one of FEMSA's most prominent leaders in the 20th century, "What a person is and may possess, is an opportunity to help others, an opportunity to serve." And with this in mind, FEMSA and Coca-Cola FEMSA's Relief Fund donated approximately $1 million to help cover all our affected collaborators. Resources that are being used to support home rebuilding, replace furniture and basic house appliances that were lost to the torrential rains.

In addition, community relief efforts were coordinated with support from our partners at the Coca-Cola company and the rest of the Coca-Cola system in Brazil, whom also donated resources and water to the most affected communities in the region.

Regarding business continuity, as we announced in early May, we suspended operations in our plant in Porto Alegre. We have now completed site cleaning and removed more than 5 thousand tons of debris and finished product and are working hand in hand with our equipment manufacturing partners towards a gradual reopening as of the fourth quarter of the year.

In the meantime, our supply chain team rapidly adapted our sales and distribution network to serve our customers in the region, setting up two distribution centers around Porto Alegre that allowed us to reach more than 90% of our customer base.

To source finished product, we are currently shipping from other Coca-Cola FEMSA territories in Brazil, Uruguay, and Argentina, as well as from other bottlers from the Coca-Cola system, allowing us to mitigate the temporary capacity gap while we reopen our Porto Alegre facility.

Despite the challenges faced in Rio Grande do Sul, volume in Brazil increased a solid 12.1%. Favorable weather in most of our territory, coupled with our initiatives to grow the core business, enabled us to achieve record volumes.

We are also encouraged by the results of Coca-Cola Zero Sugar, which continues to grow 50% year on year. In addition, Powerade and Monster grew 64% and 32%, respectively. As we mentioned during the first quarter, we are strengthening our competitive position, gaining share not only with brand Coca-Cola, but also in flavors, energy, teas, sports drinks and juices.

In Colombia, consumer confidence has continued to deteriorate. This macroeconomic backdrop, coupled with unfavorable weather during the quarter, resulted in sequential deceleration in volume growth. In this complex environment, our team remains focused on our "grow the core" initiatives, adjusting our product offerings to capture key price points. These initiatives, coupled with service and availability improvements, continued enabling us to outperform the industry, resulting in share gains.

Aligned with our initiatives to increase capacity, in late June, we opened a new distribution center in Funza, in the outskirts of Bogota, increasing capacity by 90,000 pallet positions, bolstering our service to more than 30,000 clients in the region.

Moving further south to Argentina. As was the case during the first quarter, we continue seeing the effects of a 31% contraction in disposable income, leading our volumes to decline 9.9%. However, prospects of a more controlled inflation and a gradual recovery of disposable income are being reflected in consumer sentiment. Our team continues executing the playbook needed to emerge stronger from these macro adjustments, strengthen our affordable platform to maintain household penetration and consumer preference while driving cost and expense efficiencies, as well as implementing productivity initiatives.

Finally, volumes in Uruguay declined 12.1% year on year. This decline is explained mainly by a tough comparison base, as a severe drought in 2023 drove extraordinary growth for personal water, coupled with unfavorable conditions during most of the quarter this year.

As we enter the second half of the year, we remain confident in our strategy as well as the investments being deployed to improve service levels. We expect the consumer environment to remain resilient in the majority of our markets. We continue to see a long runway for Coca-Cola FEMSA's value creation as we progress in the implementation of our sustainable long term growth model.

With that, I will hand the call over to Gerry.

Gerardo Cruz: Thank you, Ian. Good morning, everyone. Summarizing our division's results for the second quarter.

In Mexico and Central America, volumes increased 8.1% to reach 695.6-million-unit cases, with volume growing across all of the division's territories. Revenues increased 15.3% to $45.1 billion. This growth was driven mainly by volume performance and favorable mix effects. Our gross profit increased 17.8% to reach $21.9 billion, resulting in a gross margin of 48.7%, expanding 100 basis points year on year. Our operating leverage resulting from top line growth, improving packaging costs, and favorable hedging initiatives were partially offset by higher sweetener costs and the depreciation of the Mexican peso.

Operating income increased 12% to $7.3 billion, driven mainly by the gross profit performance I previously described. However, our operating margin contracted 50 basis points to 16.2%. This contraction was driven mainly by a non-cash operating foreign exchange loss generated by the depreciation of the Mexican peso, coupled with an increase in operating expenses such as labor, marketing and freight.

Finally, our adjusted EBITDA in Mexico and Central America grew 20.1% with a 90-basis point margin expansion to 21.9%.

Moving on to the South America Division. Volumes increased 6.5%-to-400-million-unit cases. This performance was driven mainly by double digit growth in Brazil, and partially offset by a volume contraction in Argentina and Uruguay.

Supported by this volume performance and revenue management initiatives, our revenues in the division increased 9.2% to $24.4 billion. These effects were partially offset by unfavorable currency translation effects into Mexican pesos, especially driven by the depreciation of the Argentine peso and the Brazilian real. When excluding currency translation, our total revenues in South America increased 22.3%.

Gross profit in South America increased 16%, leading to a margin expansion of 240 basis points to reach 41.1%. As was the case during the first quarter, this increase was driven mainly by operating leverage, declining packaging costs, and favorable hedging strategies. However, these effects were partially offset by increases in sweetener costs and the depreciation of most of our operating currencies in the division, as applied to our US dollar denominated raw material costs.

Operating income for the division increased 19.6% to $2.5 billion, and operating margin expanded 90 basis points to 10.1%. This margin expansion was driven mainly by our gross profit growth, coupled with cost and expense efficiencies across our operations. However, these effects were partially offset by margin pressures in Argentina, coupled with an increase in operating expenses mainly related to the flooding in the south of Brazil. On a currency neutral basis, operating income increased a solid 36.3%.

Finally, adjusted EBITDA in South America increased 25.9% to $4 billion, or 46.5% on a currency neutral basis.

As usual, I will provide you with a quick summary of our comprehensive financial result, which recorded an expense of $885 million, as compared to an expense of $1.4 billion during the same period of the previous year. For the second quarter, the main driver of this decline was a foreign exchange gain of $177 million, as compared to a loss of $437 million in the second quarter of 2023. As a reminder, we maintain a US dollar net cash position that was positively impacted by the quarterly depreciation of the Mexican peso and the Brazilian real.

Finally, before opening up the call to your questions, I will provide you with an update on the progress we are making regarding our strategic priority to debottleneck our infrastructure and digitize the enterprise.

In order to unlock growth, we are increasing our manufacturing and distribution capacity. To do this, we are implementing new modeling capabilities that optimize our footprint and capacity allocation. In 2024, we are adding seven new bottling lines, two in Mexico, two in Guatemala, two in Brazil and one in Colombia. From these lines, one in Mexico and one in Brazil will begin operations during the second half of the year. The rest are already online.

Regarding warehousing, we are not only adding capacity by opening new distribution centers, but also via layout redesign. We estimate that year to date we have avoided an approximate $25 million of CapEx through these initiatives.

Once again, Coca-Cola FEMSA delivered a solid quarter driven mainly by volume growth, thanks to the focus and commitment of our whole team. And certainly, the aligned vision of our leadership and the support of our partners at the Coca-Cola company. We feel encouraged by the consistent performance of the business through multiple quarters and across operations and are positive on the short and long term.

Thank you all for joining us on today's call. Operator, we are ready to open the call for questions.

Operator: Thank you, sir. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. If you find that your question has already been answered, you may remove yourself from the queue by pressing star two. Again, it is star one to ask a question over the phone. Now, the first question comes from Fernando Olvera from Bank of America. Please go ahead.

Fernando Olvera: Hi. Good morning, and thanks for taking my question. I have two related to volumes. So, first, I would like to hear how are you thinking about your volume guidance? You know, after the strong demand seen in the first half of the year. And what is your view for the remaining of the year? And my second question, if you can comment about how is your market share behaving? Knowing mainly your main key markets Mexico and Brazil would be great. Thank you.

Jorge Collazo: Hi Fer, it's Jorge here. Thank you for the question. I will take the first part of the question regarding volume, volume outlook Fer, because as you mentioned, I think we can, and Ian and Gerry mentioned during the call, we are very encouraged by the performance that we've had year to date, but we are at the half mark of the year. Now, there is still a lot that we need to do across our operations to continue delivering, and we have the plans to do that.

But really, no change on the volume outlook. I think we can maintain that outlook that we have mentioned of around mid-single digit volume growth for the full year. Okay, so, at this time, we think it will be too early maybe to change that. But as we said, and I think the call really reflects this, we are optimistic about the outlook for the second half.

Ian Craig: Regarding share, Fernando, in Mexico, we have been impacted by share this year with continued supply chain shortages. So, our stockouts and availability continue to remain high. We have irregular performance, given the strong volumes. And that has been what has impacted our share, especially in flavors and certain NCBs.

Because when you have a limited production, you start prioritizing Coca-Cola brands and most profitable SKUs. So, you see that hit in other, less profitable or less key SKUs right now. In Brazil, our share has been very, very positive. Now, we are starting to see this last month, the impact of share losses in Rio Grande do Sul. So, if you look at Brazil overall, it continues with very positive trends, year to date. But if you drill down to the last month, we saw share losses in Rio Grande do Sul because unlike our competitors, our plant for the region went down. So, if you look at the Brazil numbers from here forward, including last month, I think you'll continue to see strong gains in all of our territories and pressure in Rio Grande do Sul.

Jorge Collazo: If I can add one point there, regarding also share and capacity constraints, just to emphasize something that Ian mentioned during the prepared remarks, because as he said, okay, we have capacity constraints, but it's important to say that this is a situation that is identified and that we are working on it. We added a new line in Mexico during March. There was another one that was relocated and started operations in June. And then, there is another line that's coming in the second half of the year. So, there are actions that are being implemented by the supply chain team in order to resolve this situation.

Ian Craig: Yes. As well as, obviously, the quite substantial investments in distribution capacity for Mexico as well.

Fernando Olvera: Okay. Perfect. Thank you so much.

Ian Craig: Thank you, Fernando.

Operator: We'll now take our next question from Tiago Harduim From Citigroup. Please go ahead.

Tiago Harduim: Good morning, Ian, Gerardo, Jorge. Thank you for taking my question. I wanted to discuss two points here. The first one, I wanted to hear a bit from you guys about costs. So, what you're expecting maybe on a qualitative basis for 2024, maybe 2025, just to see what you guys have for the outlook for the main commodities and hear a bit more about the hedges you have in place.

And the second point would be a bit on the Brazil beer side. Right. So, just hear what you have to say about, like, overall industry dynamics in the short term, the overall consumer environment, brand performance, whatever you think is interesting to share with us. So, yeah, that's it. Thank you, guys.

Gerardo Cruz: Thank you, Tiago. I'll start with the first one regarding costs and our hedging position, and maybe Jorge and Ian can complement on the second one regarding beer in Brazil. But, as you know, and we've discussed before, for hedges, we have this process in which we usually maintain both hedge position in a rolling 12-month period for both our FX component on dollarized raw materials, as well as the price of the raw materials itself. And this allows us to provide better certainty to our operators so they can focus on bringing in the unit cases.

Having said that, we have currently a position regarding FX for 2024, or the rest of 2024, in Mexico, Argentina, above 60% of our exposure, of dollarized raw materials is covered. For Brazil, Colombia and Uruguay, a little above 40% of our requirements are hedged for the year.

And we already started in this process. 12 month rolling period, hedging the first half of 2025, exposures where we're starting to build positions.

Regarding raw materials, the prices of raw materials itself, we have, a very good position in hedging sweeteners, sugar, both in Brazil and Uruguay, where we have active hedging positions are close to 100% of our requirements for 2024, hedged with a good position as well for 2025, about 50% of our requirements, HFCS in Mexico, a similar situation where we're close to 90% of our requirements hedged. And we have good position for aluminum in Mexico and Brazil, above 60% of our requirements, as well as plastic PET in Mexico above 50% of our requirements for the year.

Ian Craig: All right. In terms of beer in Brazil, I think what we're seeing there is with a flat market in terms of volume, there's a lot of pressure going around to the beer players and intensified competition. So, we see really, really intense competition with some key brands holding prices since last year. In that picture, our volumes have been very challenging and we have held our share. I think it's declined 0.2 basis points in terms of --20 basis points in terms of share of value. So, what I would say is as long as that market continues to be flat, I think there's going to be a very intense competitive scenario as the two large beer players compete to hit growth again.

Tiago Harduim: Very clear. Thank you.

Operator: We will now take our next question from Rahi Parikh From Barclays. Please go ahead.

Rahi Parikh: Awesome. Thank you so much. I'm coming in for Ben. Can you give more color on the impact of a slightly weaker consumer? I think you said more sensitive consumer, I assume from lower spending, lower government spending in Mexico, maybe some stats on the slowdown in purchases in June and into July possible or any other comments on consumer elasticity by region. Thank you so much.

Ian Craig: Hello, Rahi, and send our regards to Ben, please. I would say across our region where we see pressure on the consumer would be Colombia and Argentina. So, those are the two markets where we see pressure. We are seeing a softer environment this month in Mexico, but so far, from what we see, I think it relates directly to weather because as you know, our business is impacted by precipitation. And usually, the first things that see softness are water and then, a little bit in single serve.

And that's exactly what we're seeing in this month. So, I would not think that that has to do with consumer and strength in Mexico, because there's still practically no unemployment. All projects keep chugging along. So, our read so far is consistent with more of a weather-related softness. Does that make sense, Rahi?

Rahi Parikh: Yes. For sure. Thank you so much.

Ian Craig: Thank you.

Operator: Thank you. We will now take our next question from Lucas Mussi from Morgan Stanley. Please go ahead.

Lucas Mussi: Good morning, everyone. Thanks for taking my question. I have one on South America margins. You guys delivered an EBITDA margin which was quite strong in the quarter, up more than 20, more than 200 bps year over year. So, I just wanted to better understand what was the drivers behind the strong margin performance?

We understand that sweeteners were still a headwind, packaging costs were more favorable, but just wanted to hear more thoughts on the color of magnitude around the cost components. Also, is it safe to say that at this point with today's print, that it's reasonable to expect that perhaps we're going to be closing the year with more healthier margins than we previously expected at the beginning of the year, or, I don't know, perhaps we could see a cost curve that's a little bit tougher for the next couple of quarters? You know, if you could share any comment on that would be very helpful. Thanks, everyone.

Ian Craig: Thank you. Lucas. I'll start with the margins in South America. Certainly, we saw better performance, and this is a result of the model that we, our strategic priorities as we establish them when we started this journey of leveraging on our operating capabilities. So, growing our business and the sustainable growth model that we are all focused on and working on allows us to capture the benefits of margin by growing our scale. We expect this to continue, to be the case in the long term, which is our bet, and we're working towards.

Certainly, we've seen a better outlook in cost structure that we had previously expected in our business plan and we expect specifically from sugar in Mexico to see a better outlook in sugar prices towards the end of the year. Slightly better. I wouldn't think that it would be a significant change, but certainly, less worrying than what we had expected initially regarding our expectations for the full year. I think we're still a little bit waiting to see how things continue to develop. I don't think we're ready to send out a different expectations in terms of maintaining flattish sort of margins for the year as compared to last year's.

Lucas Mussi: Thanks, everyone.

Operator: Thank you. We will now move to our next question from Felipe Ucros from Scotiabank. Please go ahead.

Felipe Ucros: Thanks, Operator. And good morning, Ian, Gerry and team. Thanks for the space. A couple of questions on Juntos Plus, if I may. The first one on loyalty. You know, as you've been developing Juntos, you've also been delving deeper into loyalty programs for your consumers. Just wondering if you can give us a first look on how this is going? Or perhaps you can comment on adoption speed from your clients and what differences you're noticing between clients that are using the loyalty platform versus those that are not using it.

And perhaps if you can give us an update also on the fintech side of things, I know you've been working on partnerships across the region, so, just wondering if you have any updates on that. Thank you.

Ian Craig: Hello, everyone. I think, relating to our loyalty program, we have some numbers on the uplift in volume between clients that are participating in the loyalty program. Clients that, I don't have them top of my head. So, I don't want to mention those, Felipe, but we do see a significant uplift. So, the more that we can be rolling out the adoption, the better that this is for us.

And when we walk the market and you talk to clients, you hear all sorts of positive comments regarding the loyalty program, like, from anecdotal things like, oh, finally, you guys remembered us. So, you can tell that it has an effect on when they decide to purchase from another site or from a wholesaler versus continuing to add points in our program. And you have to remember that this program's cash conversion cycle is very, very short because immediately as they put in the order, they can see that the points that they have, they quickly redeem. And you're talking about 2 or 3 days where they end up selling these products. Let's say they redeem it for a case of Coke or any other products. And, you know, it immediately translates into cash, Felipe, is what I'm trying to say. So, it's a very positive tool for us. It has surprised us and it's going very, very well. Gerry, do you want to just compliment very quickly?

Gerardo Cruz: I have the numbers for Mexico, where we have deployed our loyalty program that Ian mentioned, and we have had a great performance with 750,000 customers already online with our loyalty program across our operations.

Operator: Thank you. We will now move to our next question from Alejandro Fuchs from Itau. Please go ahead.

Alejandro Fuchs: Good morning, Ian, Gerardo, Jorge. And congratulations on the results. Thank you for the space for questions. I have two very quick ones from my side. Maybe a follow up on the volumes. We have seen, you know, very strong volumes in Mexico and Brazil for quite some time now. So, I wanted to maybe see if you could help us understand how much of this being influenced by Juntos Plus, how much is Multi-category? How do you see these new digital initiatives adding to the core platform in terms of growth?

And the second one, maybe for Gerardo, real quick, just wanted to see if I understood correctly, in terms of the one offs that you had on the quarter, you said that in Mexico, in terms of the non-cash impact was $400 million, and then, in Rio Grande do Sul, the impact, maybe we can think about around $200 million. I don't know if that sounds correct. Maybe you could clarify. That would be very helpful. Thank you.

Jorge Collazo: Yes, Alejandro, thank you for the question. It's Jorge and I'm going to start with the first part. I think something that we are seeing, and we have been discussing with the team, for example, in Brazil and in Mexico about the upside of Juntos Plus. Of course, these are analyses that are being done when we, for example, separate a cluster that is being served by Juntos Plus and another that is not. It's very hard now because it's basically all over now to make those control tests.

But during control tests and bigger, we have seen an upside of around 6% is more or less what we're starting to see with Juntos Plus. And of course, it's a combination of factors what we have seen to drive these very positive volumes.

For example, in Mexico, I think something that we continue to see that has been a driver of volumes has been, as Ian mentioned, when we think about the macro, low unemployment, it's something that we continue to see across our territories, and we continue to see this strong demand. And beyond this low unemployment, we're also seeing remittances. We are also seeing, of course, the increases in real wage. So, that also bringing this positive environment.

And on top of that environment, we are executing on the plans. So, Juntos Plus has been one, I would say, multicategory is still small in relative terms. We continue to be more or less to what we have been updating in the previous calls, which is more or less around 1% of our revenues. It's about 1.3% of our revenues today on a consolidated basis. That is multi-category, but it's certainly helping us.

I think in multi-category, we have the proof points of countries where it has been there for a while, such as Brazil with beer and countries, small countries like Central America, Europe, where you get the complete distribution of all channels with most of the partners, where you have countries already at 3 to 3.5% of revenues. So, I think that the roadmap is there. Our target, our ambition is to get to 5% of revenues, but it is a moving target in the sense that our base business continues to grow very, very fast. So, it's a good. It's a good problem to have for that percentage to grow to be relevant because our base core business continues to deliver solid top line growth.

Ian Craig: Regarding Juntos+, just to expand a little bit on your question, Alejandro, the two encouraging findings that we're getting from what we're doing, especially in Mexico and Brazil, is getting an uplift in the number of SKUs that customers are buying. And that makes sense because they have more time to place their order on their own time.

And the second is the average ticket per transaction, which is also, we're also seeing an uplift there. So, that's encouraging. And we're excited about that. Regarding your other question on the non-cash operating expenses, exactly, in Mexico, that was the amount of the impact, of the effects, depreciation. And at the end of June, for $100 million that we saw going through our P&L this quarter, affecting operating income, but not EBITDA. In the case of Brazil, the number, the net impact that we absorbed in the quarter was 130 million Mexican pesos, a little bit below the 200 number that you had in mind.

Alejandro Fuchs: Thank you very much. It was very clear.

Operator: Thank you. We will now take our next question from Lucas Ferreira from JP Morgan. Please go ahead. Your line is open.

Lucas Ferreira: Hi, guys. Good morning. Thanks for the time and congrats on the results. Once again, to follow up on volumes. It's been very surprising how fast volumes are expanding. And then, especially in an environment where, for instance, in Brazil, your market share is growing, and your capacity is somewhat limited. How to think about pricing. I have a sense that this category had much less pricing over the last two years than others. If you look at food inflation, if you look at, I don't know, beer, for instance, had much bigger hikes.

So, wondering if, you know, in a year of probably lower cost or easier cost that that was something a strategy for keeping prices somewhat in line with inflation.

So, my question is basically how to think about pricing from here. If you see room for an improving mix or even adjusting overall pricing, if that's something that you have in mind. And another question on Argentina, I think you also had a good volume performance relative to many other companies that operate in the region. So, I'm wondering how you see the environment in the country, if there is anything different you're doing or how to think about, you know, the quarters to come if you see already a rebound or what to expect basically for the next, I don't know, six, 12 months. Thank you very much.

Gerardo Cruz: Thank you, Lucas. I'll jump on the first one regarding pricing. The name of the game for us is sustainable growth. And in that sense, our focus is to maintain a balanced strategy and look towards revenue per unit case to grow that in line with inflation across our markets. We have a new capability with a digitization of the business and Juntos Plus to be able to personalize portfolio and execution, and that allows us to maximize value both for us as well as our customer.

We will continue to prioritize, certainly, the competitiveness of our portfolio. We're focusing on being able to grow our volumes sustainably in the long term. We will continue to drive affordability and foster single serve growth to be able to get the benefit of the mix in pricing on our P&L.

And the last one, we are expecting a more benign raw material environment as we move towards the second half, especially in sugar, that had been a source of pressure for us. So, that will also provide a relief in terms of allowing us to be more active in our revenue management.

Ian Craig: I think just complimenting, Gerry. And in line with your, probably what you're thinking is. When we do have, for example, unavailability issues, we practically zero our promotions in those SKUs because, you know, there's not enough there to supply. So, you see some effects of adjusting the tactical calendar to basically canceling out any sort of promotion or tactical activity other than what we have by contract in, you know, the modern trade.

So, you see some effects of that also filtering through in Argentina. I believe we took a slightly different strategy to other players in the sense that we believe this crisis is temporary. We've seen it happen recurrently in Argentina, where even under scenarios with not necessarily the best government measures, the country recovers. And we think right now the government is taking very good and appropriate measures. So, we're very confident. And in the recovery, we're actually quite optimistic in Argentina.

So, the strategy that we implemented was, you know, we didn't want to lose household penetration or consumer preference. So, we made sure we focused on, you know, having affordability initiatives there, maintaining our household penetration. And we're ready to face what we thought were going to be 9 to 12 months of an impact. I think we've seen the initial share impact that we had in the first couple of months quickly be reversed, and the volume fraction or decline is smaller and smaller and smaller each month.

So, I think, good days ahead for Argentina. But still, we expect a tough year this year and a return to growth next year. I think it's safe to say that we see it improving month over month. But, you know, the country faces a large challenge, and you can see the effects rate gap. It's not going to be a straight line of improvement. So, there are challenges there. But our operation continues to improve month over month. And I think we hit on the right strategy.

Lucas Ferreira: Super clear. Thank you very much.

Operator: Thank you. And we will now take our next question from Alvaro Garcia from BTG. Please go ahead.

Alvaro Garcia: Hey, gentlemen, thanks for the space for questions. Two questions, one on Guatemala, I was wondering if you could zoom out a bit, and just maybe discuss per capita and sort of what's driven what seems to be just sort of this perpetual double digit growth you've seen there for quite some time now, consumer strength etc.. And then, on Argentina, just zooming in on what you were just talking about, Ian. Where are we in the battle against multi-serve, or how can you take a crisis like this to sort of, you know, maybe try to shift consumer behavior away from multi-serve, if that is indeed a strategy at all. Thank you.

Ian Craig: I'll start with Argentina and then go over Guatemala. So, with Argentina, just to keep with the flow of the prior question, it's one of the few markets where you see the impact of increasing returnable mix. So, once you see consumers are feeling the pinch, usually the mix of returnable increases. So, we're seeing that in Argentina. You're also seeing the relationship with multi servers as well. But it's very minor. In March, it's maybe 60 basis points of an increase in multi service. It's not that big, Alvaro. Where I do see the switch is within one way to multi multi-serve presentation, where you do see a big moving in Argentina towards returnable. It's the one market where you see that increasing.

Moving on to Guatemala. Sorry. Yeah. The question on per caps, I think, Alvaro, maybe just to clarify, can you repeat the first question, I think it was related to per capita. Right. But we just wanted to make sure if you can repeat the first question to make sure we get it right.

Alvaro Garcia: Just trying to sort of wrap my head around the very strong volume growth we've seen out of Guatemala over the last several years now. And, you know, I'm assuming per capitas have bumped, you know, significantly higher. So, maybe reviewing that would help, but maybe a discussion on disposable income and sort of occasions and how maybe that's changed over the last five years. But just reviewing the strength of Guatemala would be very helpful.

Ian Craig: I mean, I think we've talked about this in the past, Alvaro. We're still, we used to be, I think, last year it was around 180 or 190. Right now, we're at 220. So, I mean, per capita are still low enough. We still have a lot of legroom in per capita. And I think one of the beautiful things in Guatemala is it's a very large and very young population with stable income growth and, you know, a lot of remittances.

Something that's been surprising to me is the strength of remittances there, the importance of remittances. So, it's just a country that's getting wealthier and wealthier and wealthier. Very stable, very pro-business. You know, employment is up there even getting some near shoring in textiles. So, to us, I mean, there's no reason that Guatemala shouldn't double in size. That's our view.

So, it's a very good business and we're working to make that happen. And one of the best projects was the new plant and capacity expansions. And those were filled almost immediately. There's a lot of upside to remain in Guatemala. Of course, the percentage trend as is natural will start to decrease over time, but there's still plenty of upside to that territory as well. Another and just one last one. And it's just a jewel of a territory as well in the mix of single serve being very, very high. So, it's a really a good place to be in. Sorry, Gerry.

Gerardo Cruz: Another important component just to compliment Ian, Alvaro, is that in Guatemala in the past few years, we've gained an important amount of share. In Guatemala we had headroom in share specifically in colas, as you know, that's our biggest right to win with brand Coca-Cola. So, we've gained a significant amount of share this past, I guess, four or five hundred points.

Ian Craig: It's a lot of share gain.

Gerardo Cruz: Yeah.

Alvaro Garcia: Great. Thank you very much.

Operator: Thank you. We'll now move to our next question from Ulises Argote from Santander. Please go ahead.

Ulises Argote: Sure. Sorry. Thanks for the space for questions. So, just to understand a bit better, do you have something to share around what is kind of the ballpark in terms of million-unit cases that you're adding to the pipeline with this seven lines that you were mentioning that you're rolling out this year? And do those kind of seven lines leave you in a comfortable level for production, or should we expect more additions of lines or maybe even plants in some regions in the coming years? All of this obviously with the very strong demand that you guys are having. Thank you.

Gerardo Cruz: Thank you, Ulises. The number that we have in expansion in capacity, specifically manufacturing, is creating 15% additional capacity in three-year period that started in 2023. So, 2023-24 by the end of 2025, we expect to have 15% more capacity. As you know, and you've seen in our reports, we've been outpacing our initial projections. So, we'll probably be adjusting that capacity creation as we move forward, marginally, probably a little above that 15% new capacity in terms of distribution capacity there we have the ability when we're surpassing capacity to be able to rent third party assets, trucks, warehouses. So, we're a little bit more behind in distribution capacity there. We're expecting to increase distribution by 30% in that same period of time.

Ian Craig: Yeah. And just in terms of new plant releases, what we're trying to do is saturate our current facilities. But eventually, we will need a new plant to serve the southeast territory of Mexico. So, as long as we can keep adding lines to our facilities, that's the way to go. But we will be triggering at some point, a full new, greenfield for Mexico and at some point for Brazil as well.

Ulises Argote: Okay. Super clear. Thanks for that, guys.

Operator: Thank you. And we will now take our final question for you today from Thiago Bortoluci from Goldman Sachs. Please go ahead.

Thiago Bortoluci: Yes. Good morning, everyone. Thanks for taking the question and congrats on the results. Look, if I were to put everything that you said and have been saying together, right, what we're seeing is mid-single digit volume growth for the year and better costs. Right? Probably because of your FX hedges demand apparently continues to be super solid and we're facing some capacity constraints. Right.

So, if I were to imagine the second half, the back end of the year, and you have been indicating mid-single digit volume growth and aim to get stable profitability, where the upside risk is this combination, right? I think we've been running above expectations. And the question is more to get a clear view with this capacity constraints, should we eventually expect that Coke FEMSA will take this opportunity eventually to push margins a little bit higher?

Jorge Collazo: Yes. Thank you. And thanks for the question. I think getting around the capacity constraint is something that definitely the team is working on. You know, as Gerry mentioned during his prepared remarks, he highlighted that just this year we are installing seven new lines. Most of them have been installed already. And this is only for 2024 but there is more on the plan for 2025 and so on.

As you know, there are some investments that we are doing on the CapEx in this period of time. We have guided that it's going to be between 8 to 9% of our revenues. So, there is significant projects there that are coming. Also, Ian referred to that. And I think the summary you made for the expectation of the second half of the year are correct. I think we have guided for a full year, that we expect volumes to be on the mid-single digits. We are seeing, as you mention, a more benign environment on the cost front. We have implemented our hedging strategies, and the team is executing on both the commercial and the supply chain. So, things are going well.

But at the same time, we maintain the outlook of margins. You know, we are more focused on the growth side of the equation than on protecting the profitability. That's one way I would say, to put it. So, yes, definitely. I think that after the first six months of the year, we are more optimistic about potentially having some upside potential, probably in profitability. But as Gerry mentioned, we're at the half mark of the year.

So, the summary, I think, is correct. No mid-single digits volume growth and margins should be on the flattish side. And of course, we cannot forget that in the second half of the year we could have some volatility either effects or other things. I think this year, the first half has also been a reminder of that volatility can come. Weather has happened in the south of Brazil and those kinds of things. We cannot forget that those things can happen. So, that's why we are optimistic on the outlook. But at the same time, we maintain the outlook that we have set for the full year.

Thiago Bortoluci: As always, thank you.

Operator: Thank you. With this, I'd like to hand the call back over to Jorge Collazo for closing remarks. Over to you, sir.

Jorge Collazo: Well, thank you very much, everyone, for joining us on today's call. As always, myself, Lorena and Marene are available for any of your remaining questions. And also, maybe a very quick announcement regarding the IR team. Marene, who has been part of the team. She's moving to a new role in strategic planning within the company. So, Marene, thank you very much for your support. Since 2020, you have been a very valuable member of the team. I know you know the analysts very well. So, thank you, Marene, and good luck on your next role. Thank you, everyone.

Ian Craig: Thank you.

Gerardo Cruz: Thank you.

Operator: This concludes today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]