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Arca Continental 1Q24 Earnings Conference Call Transcript
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Operator: Good day, everyone, and welcome to the Arca Continental conference. All lines have been placed on mute to prevent any background noise. Please note that this call is being recorded. After the speakers' remarks, there will be a question-and-answer session, and instructions will be given at that time. For opening remarks and introductions, I would now like to turn the conference over to Melanie Carpenter of Ideal Advisors. Ma'am, please go ahead.

Melanie Carpenter: Thank you, operator. Good morning, everyone. Thanks for joining the senior management team of Arca Continental this morning to review the results for the first quarter of 2024. Their earnings release went out this morning and it's available on the company website at arcacontal.com in the Investor Relations section.

It's now my pleasure to introduce our speakers. Joining us from Monterrey is the CEO, Mr. Arturo Gutierrez; the CFO, Mr. Emilio Marcos; and the Executive Director of Planning, Jesus Garcia. They're going to be making some forward-looking statements, and we just ask that you refer to the disclaimer and the conditions surrounding those statements in the earnings release for guidance.

And with that, I'm going to go ahead and turn the call over to the CEO, Mr. Arturo Gutierrez, who is going to begin the presentation. So please go ahead, Arturo.

Arturo Gutierrez: Thank you, Melanie, and good morning, everyone. We appreciate you joining us for an update on our first quarter performance.

I'm happy to announce that we've experienced a favorable start to 2024, marked by positive momentum. We initiated the year on a high note, achieving strong operational performance and solid financial results.

Total consolidated volume grew 0.1% in the quarter, reaching 565 million-unit cases. We posted positive volume readings in most of our operations, overcoming a still volatile economic landscape in South America, particularly Argentina.

Total consolidated revenue was in line with last year, up 0.1%. On a currency-neutral basis, revenues grew 8.5% in the quarter.

Consolidated EBITDA for the quarter grew 1.2%, representing a margin of 19%. Remarkably, this is the highest consolidated margin for a first quarter in the last six years.

Before I turn to my discussion on our operating results, I'd like to highlight a significant milestone in our journey to evolve and scale Arca Continental's digital ecosystem.

This quarter, we launched The Digital Nest, our technology and innovation hub. Thiscenter hosts approximately 200 experts, specialized in fields of data science, platform development and commercial strategies, focused on building our integrated ecosystem, while developing our capabilities for the future.

Our digital agenda continues to make progress, as demonstrated by several key indicators.

As of March 2024, AC Digital reached over 850 thousand registered customers in Latam. Among them, over 70% are actively engaged with our platform and more than 60% of the volume from our traditional trade was ordered through the app.

Our recent studies confirm that digitized customers consistently outperform non-digitized customers.

These incremental volumes come from increased order frequency, higher drop size, and expansion on portfolio. Moreover, our digital channels generated revenues exceeding $500 million dollars just in the first quarter of this year alone.

Now let´s review the performance and highlights across our operations.

Our beverage business in Mexico continued driving steady positive momentum, delivering another solid quarter of volume growth, up 3.1% and cycling a strong 5% from the same quarter in 2023.

Mexico's volume was the highest first quarter performance since 2017.
Volume growth was driven by a robust growth in colas, up 3.3% and stills with a 10% growth.

Sparkling beverages represented over 65% of the total volume growth. Importantly, Coca-Cola Without Sugar grew 15% in the quarter driven by increased coverage and supported with on-going innovation through the Coca-Cola Creations platform.

We continued to perform strongly in all our channels. Growth was mainly driven by the Modern trade, up 10.2%.

Total net sales in Mexico rose 7.7% in the quarter, reaching $23.3 billion pesos, marking the 31st consecutive quarter of net revenue growth. Average price per case in Mexico in the quarter - not including jug water -, rose 5.2%, reaching $85.01 pesos.

We captured additional non-alcoholic ready-to-drink value share in Mexico, as a result of our team's ability to execute clear occasion-based channel strategies across all beverage categories.

EBITDA increased 9.7% to $5.2 billion pesos in the quarter, representing a margin of 22.2%.

This quarter we reached twenty-one consecutive quarters of EBITDA growth, which demonstrates the resilience of our beverage business in Mexico.

Turning now to our operations in South America, total volume was down 3.6% in the quarter, as a result of declining volume in Argentina, which was partially offset by growth in Peru and Ecuador.

Total revenue was down 9.9% in the quarter, reaching 9.6 billion pesos, while EBITDA decreased 18.6% to 1.8 billion pesos, representing a margin of 18.3%.

This region continued to be impacted by a challenging macroeconomic scenario, particularly by high inflation. As anticipated, Argentina and Ecuador are still facing headwinds, indicating a difficult first half of the year. However, we expect a recovery in the latter part of 2024.

In Peru, our team delivered another quarter of outstanding sequential volume growth, up 3.8%, cycling a strong 6.7% growth in the same quarter of 2023.

Total volume for the quarter reached 90.1 million-unit cases, marking the 12th consecutive quarter of volume growth. Notably, this was the highest volume posted for a first quarter since we started operations in Peru in 2015.

Volume growth was driven by colas, up 6.2%, and still beverages at 24.7%. The traditional trade was one of the best performers in the quarter with 4.2% growth, as we continued actively promoting affordability with returnable packages. Our mix of returnable packages increased 5.2 percentage points.

Let me now share with you an update of the rollout for our multicategory platform in Peru, as we continued to see encouraging progress in the development of these categories.

We are extending beer distribution to 40% of our territories, surpassing the targeted coverage objective. An important discovery lies in customers who have the opportunity to increase coverage of beer category. These high-potential customers drive growth rates of roughly 3 to 5% in our core portfolio.

Furthermore, we started distribution of one of the finest Pisco brands. This category of spirits represents the most relevant SKU in the on-premise channel and is driving incremental sales of our Schweppes ginger ale brand.

In Ecuador, the nationwide state of emergency was extended due to the country's ongoing struggle with increasing violence and security issues.

These challenges are impacting consumption, especially in the on-premise channel.

Despite the weakening consumer demand, our beverage business posted a solid 3.5% volume growth in the quarter, cycling 7.5% growth from the prior year.

Volume growth in the quarter was led by the sparkling category, up 6.2% and driven by double-digit growth in Coca-Cola Zero Sugar.

Shifting gears to our beverage business in Argentina, volume in the first quarter was down 26.1%, cycling a strong 5% growth from the same quarter in 2023.

Severe currency devaluation, triple-digit inflation and high interest rates continued to negatively impact consumer spending.

Despite the prevailing economic turmoil, we gained value share across NARTD categories by driving affordability and promoting returnable packages, resulting in a significant increase in product mix, in these presentations.

Although the economy in Argentina looks set to remain in recession, we anticipate a moderation in the rate of contraction and a gradual recovery towards the second half of the year.

Coca-Cola Southwest Beverages maintained its steady momentum and delivered another quarter of solid top and bottom-line results, marking the 24th consecutive quarter of EBITDA growth.

Net revenues for the quarter rose 6.9%, to $990.6 million dollars. Average price per case grew 4.6% reaching $9.65 dollars, as we focused on the optimal execution of our most valuable packages, coupled with promotional spend optimization powered by our Trade Promotion Optimization tool.

Volume for the quarter grew 2.3% to 103 million unit-cases. Sparkling category was up 1.6% and transactions grew 2.3%, as we continue to focus on higher profit-per-case packages, such as 16-ounce cans and 1.25-liter PET, up 16% and 35.4%, respectively.

Notably Coca-Cola brand grew 3% and Coca-Cola Zero was up 6.4%, while the Stills portfolio delivered 1.6% growth, driven by Monster, Fairlife and Tea.

We saw positive volume performance across Large and Small Stores, up 2.1% and 4.2%, respectively. We continued the positive momentum trend of value share growth, leading the non-alcoholic, ready-to-drink beverages industry.

This quarter, we continued driving innovation and launched over 70 new SKUs, including Coca-Cola Spiced.

EBITDA in the quarter grew 9.9% to $155.1 million dollars, representing a margin of 15.7%. Notably, this is the most profitable first quarter since we took over the operation in the U.S.

The six consecutive years of EBITDA growth undoubtedly demonstrate our ability to adapt the playbook that we have successfully executed across our Latam operations.

We are excited to share that our team in the U.S. won the North America Market Street Challenge award for the second time in the last six years. This is the most prestigious award within the U.S. Coca-Cola System, recognizing excellence in execution.

And to conclude with the review of our operations, our Food and Snacks businesses started the year with sustained earnings momentum, driven by productivity, and cost efficiency programs.

Bokados delivered mid-single digit sales increase and posted its twenty-sixth consecutive quarter of revenue growth. The modern trade was the best performer, as we capitalized on our solid execution at the point-of-sale.

One notable achievement this quarter was the opening of Wise Snacks' new distribution center in Ashley, Pennsylvania. The 256,000 square feet facility will play a pivotal role in enhancing supply chain operations, optimizing inventory management, and ensuring seamless service to sales.

Inalecsa in Ecuador is making great progress to spark consumer-centric innovation, expanding its portfolio products, and leveraging on the strong brand equity of our leading confectionary offerings.

Let me now provide an update on our most relevant sustainability activities in the quarter.

Our subsidiary, AC Bebidas successfully completed our first issuance of sustainability-linked bonds in the Mexican debt market.

This issuance reaffirms our commitment to promote a circular economy by increasing the percentage of recycled PET content utilized in our packaging.

It builds upon our prior announcement to invest nearly $175 million dollars, in partnership with Coca-Cola Mexico and fellow bottlers, to expand PetStar's recycling capacity and reach over 40 PET collection centers in Mexico by 2027.

Through PetStar, the largest food-grade PET recycling facility worldwide, we are making significant strides in providing sustainable packaging for our markets in Mexico and the United States.

I will now turn the call over to Emilio. Please Emilio.

Emilio Marcos: Thank you, Arturo. Good morning, everyone, and thank you for joining us today to discuss our financial performance for the first quarter of 2024.

Despite the challenging global macroeconomic conditions, and the political situation in some of our operations, we are pleased to report a solid start to 2024, marked by positive EBITDA performance and improved profitability. Our achievements in the first quarter were primarily driven by the consistent evolution of our commercial strategies, our service models focus at point-of-sale execution and proactive management of our price/pack architecture.

Let's now turn our attention to the consolidated results for the quarter:

Our Consolidated Revenues grew 0.1% in the quarter, to $50.7 billion pesos. On a currency neutral basis, revenues increased 8.5%. We were able to achieve positive performances across most of our operations despite the FX impact following the strong appreciation of the Mexican peso against other currencies, particularly the US Dollar and Argentine peso.

Our top-line performance was supported by positive volume growth and effective pricing strategies in Mexico, the U.S., Peru, and Ecuador. Nonetheless, our beverage business in Argentina faced many challenges due to the economic conditions in the country.
Gross Profit improved 2.4%, reaching $23.6 billion pesos, which represented a 100-basis points expansion in our contribution margin. On a currency neutral basis Gross Profit grew 11.3%. This improvement was mainly due to a solid top-line performance and stable or lower pricing of most of our key raw materials.

Our Consolidated EBITDA grew 1.2% to $9.7 billion pesos, with an EBITDA margin of 19%, 20-basis points more compared to the first quarter of 2023, mainly driven by our stronger contribution margin. On a currency neutral basis, EBITDA increased 8.7% during the quarter. Net Income for this period was 0.8% higher, 9.6% on a currency neutral basis, which is explained by the Operating Income result.

Now, moving onto the balance sheet:

Continuing Arca Continental's long-standing dividend policy, we distributed $3.8 pesos per share on April 11th, 2024, representing a payout ratio of 37% of our retained earnings and a dividend yield of 2.1%.
Cash and cash equivalents for the quarter stood at $23.6 billion pesos with a total debt of $44.8 billion pesos, resulting in a leverage ratio of 0.5x times.

CAPEX for the first quarter was $2.5 billion pesos, an increase of 8.5% versus the same period last year. It´s deployment is consistent with our strategy to further strengthen production and distribution capabilities, enhance market execution, and advance our digital agenda across all operations.

Recognizing the growing importance of sustainability in today's business landscape and our commitment to align our financing activities with our ESG principles, on April 4th, we successfully completed the issuance of $7.4 billion pesos in Sustainability-Linked Bonds in the Mexican Stock Exchange. This transaction is comprised of two tranches: one amounting to $6.4 billion pesos with an 8-year term at a fixed rate of 9.85% and another totaling $1 billion pesos with a 3.2-year term at a variable rate equivalent to the Interbank Interest Rate plus 10-basis points.

The transaction attracted significant interest from a broad spectrum of investors, resulting in an oversubscription of 1.55 times the issued amount. The proceeds will be allocated towards refinancing existing liabilities, thereby improving our debt maturity profile and reducing financial expenses.

Looking forward, we remain focused on keeping healthy and steady business fundamentals, together with disciplined strategic execution. We are confident that the continuous evolution of our Revenue Growth Management capabilities, coupled with the implementation of our digital and commercial initiatives, will continue to add value for our customers and shareholders.

And with that, I'll turn it back to Arturo. Please Arturo.

Arturo Gutierrez: Thank you, Emilio.

Looking ahead into 2024, we will continue facing geopolitical tensions, high inflation and significant macroeconomic volatility. But notwithstanding this backdrop, we are optimistic about the future of our business.

We believe our team is better prepared today and we're confident in the flexibility we've built and our ability to manage what's around the corner.

Our positive trend in volume growth should continue, as we aim to balance pricing in line with inflation, market share and profitability.

We will continue capitalizing on our strong relationship with the Coca-Cola Company to foster growth. The ongoing success of our Collaboration Framework continues to unveil promising prospects. Our primary objectives remain unwavering:

Grow our core business with a higher value proposition, while increasing our share of wallet with a broader portfolio.

Increase loyalty in the traditional trade by establishing ourselves as the most relevant partner, delivering a frictionless digital and physical experience for our customers.

And explore new revenue streams through multicategory initiatives, and other opportunities arising from the expansion of our digital platform.

Furthermore, we will accelerate the pace in our pursuit of becoming one of the most digitally advanced bottlers within the KO system.

We will continue evolving our B2B order taking capabilities to an engaging marketplace experience and fully integrate all the elements of our digital ecosystem, such as Yomp, loyalty programs, fintech services and multicategory.

We will build upon the success of our suggested order tool and our proprietary algorithms to identify and capture granular opportunities in our markets through AC Mobile, our sales force automation tool, and AC Digital, our B2B customer facing platform.

We will also accelerate the deployment of our commercial processes supported by machine learning and artificial intelligence models.

In closing, we operate within a resilient and growing industry, with great brands that our consumers continue to love.

Thank you for your support and confidence. Operator, please open the floor for questions.

Operator: Thank you, sir. At this time, we will open the floor for questions. If you would like to ask a question, please press the star key, followed by the one key, on your touchtone phone now. As a reminder, due to high interest and time, please limit yourself to one question. We will pause for just a moment to allow everyone the opportunity to signal for questions.

We will take our first question from Benjamin Theurer with Barclays.

Benjamin Theurer: Good morning. Thank you very much, Arturo and Emilio. I just wanted to ask around the general environment in the different markets, and you've talked briefly about the challenges to a degree in South America. But if we look at some of the indicators, there's also been a little bit of a switch in consumer behavior in North America and the Mexican operation. So just wanted to understand what are you seeing like on the ground consumer behavior and all the price increases we had in the past? How's that being taken by consumers right now? And what is the potential impact going forward as it relates to your target for profitability for the rest of the year?

Arturo Gutierrez: Yes. Thank you, Ben. Good morning. Well, if you look at our results this quarter, we had growth across all regions except in Argentina due to the conditions. So, we're still seeing a very positive consumer environment, positive market dynamics, particularly in Mexico and the U.S. We are leveraging many new tools that are also driving growth in most of our markets.

And so that explains the growth in volume in Mexico, Peru, Ecuador, and the U.S., mostly about expansion of our digital tools, advanced analytics, and also some of the, I'd say the basic things that we do continuously, which is just cooler placement opportunities, better execution at the point of sale, deployment of returnables, particularly in Peru and Ecuador.

So that is pretty much the basic playbook. We've also improved our market share in some of our territories. And if you look at price increases, as you have mentioned, they've been pretty much in line with inflation. We have not increased prices as previous years, but we are in line or above inflation, which is our target in every business unit. Even in Argentina, I think we've been very effective in implementing prices in line with escalating inflation. And so, we continuously are monitoring our price dynamics to maintain competitiveness in the market and balance our market share, our growth, our pricing to sustain profitability. So, we are optimistic that we are going to deliver on the guidance for the year on growth in our markets.

In the case of Argentina, which is the exception, while it's going to be a very difficult first half of the year, we think that we will gradually recover during the second half, and that would avoid really a major impact for the year. We're focusing on affordability, on returnable presentations, on pricing, as I mentioned, and OpEx optimization. And we are also deploying our basic playbook under these circumstances, and continue to invest in the market, in the operational capabilities and infrastructure.

Benjamin Theurer: Perfect. Thank you very much.

Arturo Gutierrez: Thank you, Ben.

Operator: And we'll take our next question from Alejandro Fuchs with Itau.

Alejandro Fuchs: Hello Arturo, Emilio and Team. Thank you for the space for questions and congrats on the results. Two very quick ones from my side. The first one is in the U.S. You posted volumes growing 2%, which is very impressive for a mature market. And you mentioned that you're having improvements in innovation and new tools. So overall I wanted to see if you could maybe elaborate a little bit more on what the team is doing in the U.S. and if you expect solid volume growth like this to continue going forward?

And then the second would be on Argentina. You also mentioned that you expect a less harsh second half of the year. And I wanted to understand maybe how do you see the business for the medium term in Argentina, right? Do you expect margins recovering in 1 or 2 years? Is this going to take maybe a little bit longer? I wanted to understand maybe a little bit more of the medium to long-term perspective around the business.

Arturo Gutierrez: Thank you, Alejandro. Let me address the U.S. question first. Yes, we expect to continue growth momentum in the U.S. We've been performing really well in market share in that territory, and we're also taking advantage of good market dynamics -- particularly in Texas, and that also has resulted in good performance.

We are doing a number of things. We're deploying new tools. And that's in line with our overall strategy for digital and demand forecast tools and machine learning. And that will allow us to improve our fill rate and reduce out of stocks. That's been an issue in the last few years in the post-pandemic era. So that's an opportunity for continued growth. We're focusing on our packaging and improving transactions, which is, I think, the key metric in the U.S. And we're also improving our point-of-sale execution, I think that goes back to our basic playbook and how do we align our operation all the way to the front line with what we have as our, what we call our fundamentals, which is our basic execution metrics.

So, we have an opportunity to keep increasing share in stills categories and to expand and scale those tools that I've mentioned and also our trade promotion optimization tool for pricing and our digital platform as well in the on-premise market.

So, in the U.S., we also focus on innovation, the launch of many, many SKUs. We've launched 70 SKUs. We have campaigns leveraging the '24 Olympics, which is also very relevant. And as I mentioned in my prepared remarks, we have been awarded for the second time the Market Street Challenge Award, which really reflects the good work that we're doing in the marketplace in terms of execution in the point of sale. So, we expect to continue to grow in the U.S. market.

And also, an important highlight in this quarter is that we're growing not only the still beverages, which have been the driver for growth previously, but also, we're growing brand Coca-Cola. Notably, Coca-Cola and Coke Classic is growing. So, Coca-Cola brand is growing 3% in the first quarter. So that -- I think that's a very good sign of the opportunity in the market going forward.

In the case of Argentina, well, we all know that we faced a very challenging situation the end of '23, the beginning of this year, '24; reduced consumption, and a significant negative impact in our sales volume. We expect to recover in the second half of the year. The second quarter, we still see as a challenging quarter. It's going to be better, we expect, than the first quarter, which was a sharp decline, and it will sequentially improve towards the end of the year. That's our expectation.

So, what are we doing in Argentina? We are basically, focusing on the things that we can control. That certainly depends on how things progress and these new public policies, how they also start to have a positive impact in the economy. But the things that we can control is, first, focus on affordability strategy, expanding a returnable mix, which, it actually expanded 10 points from 38% to 48% in this first part of the year, and that's very important to continue to offer affordable products to consumers.

Second, we are constantly reviewing our pricing strategy. If you see, pricing in Argentina grew 288% in the first quarter, which is really in line with inflation, and that is a big challenge, but we've proven to be very effective, not this quarter, but for many, many years, to manage prices and keep in line with inflation and maintain our margins as much as possible.

We are also focusing on savings and OpEx savings and efficiency programs through many, many projects. And also, we're in the process of transitioning to other distribution partners, also leveraging the distribution capacity that we have, replacing beer distribution. We already have an agreement in place for dairy products, and we're exploring other opportunities as well this year. So that is the outlook for Argentina.

Alejandro Fuchs: Thank you very much, Arturo.

Arturo Gutierrez: Thank you, Alejandro.

Operator: And we'll take our next question from Felipe Ucros with Scotiabank.

Felipe Ucros: Good morning Arturo, Emilio, Jesus and Team. Thanks for the space. A couple of my questions were already asked, but I'll follow up with some deeper on certain bits of information you gave us, which I found interesting. So, the first one's on Mexico. Great detail about the size of the vending channel. Just wondering if you could explain a little more about what the strategy is for that channel and what kind of growth you're seeing and kind of where you see the future of this business.

And then in Ecuador, a little bit of a dichotomy, right? Great performance in beverages despite everything that's happening in security in the country, but not so great in snacks and dairy. So just wondering if you have any comments about what's happening on the ground that is making these categories move in such opposite directions.

Arturo Gutierrez: Yes, well, let me talk about Mexico and vending first. And I think I'll turn that over to Chuy, that also manages the business of vending. But I would say that that business for us in Mexico and Peru as well is seen as a separate business unit, as a direct-to-consumer unit rather than just a distribution branch of our beverage business. And so, we continue to expand our presence through different formats. So, I'll ask Chuy to elaborate on that.

Jesus Garcia: Yes, thank you Arturo, and thank you Felipe for your question. Relating vending in Mexico, we grew the operations double digit in volume, in both sales and volume, mainly driven by our expansion in micro markets. This represents close to 10% now for our organization. And then our snacks category is growing 30% in volume.

During the first quarter of the year, Mexico reached over 230 micro markets in 5 cities. And maybe I should talk about micro markets a little bit. These are small and open retail spaces located in controlled environments, for example, office break rooms, industrial dining rooms, closed residential complexes, etc., where consumers can purchase food and beverages via self-service kiosks.

So, the difference between vending and a micro market for us relies in 2 main things. One is a much broader variety of products and categories. So as an example, in a traditional vending equipment we can carry up to 40 SKUs and in a micro market we can have up to 200. And 2, a more fluid purchasing process for the consumer. So, we expect to continue growing in the micro market segment as that is what the evolution of the market is showing us we should be.

Arturo Gutierrez: And Felipe, let me talk about Ecuador for a minute. As you said, we had very good performance in Ecuador, growing volume, especially considering that we are cycling a 7.5% growth in volume in the first quarter of last year. So, I think this market for us is a great demonstration that we can grow despite a very complex political economic environment, and that our business is very resilient.

So, what we've been doing here is, again, another case of combining our basic playbook of installing coolers, expanding returnable packages, and also the deployment of new digital capabilities as we have continued to invest in operational capacities to also service demand, as an example.

In Ecuador, the current coverage of coolers is 52%. In Mexico, it's 85%. Probably we're not going to get to 85% in the market, but there's for sure an opportunity to continue to expand, and that's growth for our business.

The situation for dairy is a little different, especially under these circumstances. It's impacted more severely, basically because schools did not operate regularly in the first part of the year, and that's an important consumption occasion for dairy products. And also, we have more premium products that tend to be more affected under these conditions, but we're also on the road to recovery.

And in snacks, we also had an impact due to the conditions in the country, but our profitability continues to be really good for a snacks business. We improved actually our EBITDA margin in Inalecsa in snacks. It's 14.5% which is a very good margin and we are a very competitive player in that industry versus the leader in the Americas.

We actually maintain market leadership in many products and we also have been effective in managing optimal pricing to sustain those margins. In that business, innovation is really important, and we continue to launch products in all the categories where we participate.

Felipe Ucros: That’s very clear. Thanks a lot for the detail.

Arturo Gutierrez: Thank you, Felipe.

Operator: And we'll take our next question from Isabella Simonato with Bank of America.

Isabella Simonato: Thank you for the opportunity. I wanted to understand a little bit more when we think about SG&A, right, going forward, and how we should think about that for the next, until the end of the year, or maybe in the mid-term, right? What sort of, as you implement your digital agenda and as the business grows, right? We're talking about initiatives and we could see on the

SG&A level what type of efficiencies and how we could think the SG&A level as a percentage of revenues in the upcoming quarters?

Arturo Gutierrez: I will let Emilio elaborate a bit on that. As I said, we do have a very robust digital agenda going forward. We invested in those capabilities. At the end, we believe that that's going to be for the benefit of our profitability and our business overall, especially in Latin America.

Our OpEx ratio did grow in the first quarter, mainly through higher investment in the market and some increased labor costs in our operation, we expect that to level through the year, and also to be offset by savings in some of the operational efficiencies that we're working on. But I will let Emilio elaborate.

Emilio Marcos: Thank you, Isabella for your question. I think it's important to mention that this quarter, we advance the scheduling of some expenses that we have planned during the year, so it's a matter of timing. So, it should be normalized during the year to be in the same levels as 2023, that it's around 31% of sales. This quarter, that's the reason why we advanced the marketing and some maintenance expenses during the quarter. But it's a timing matter, I think.

Isabella Simonata: That's very clear, thank you.

Operator: And we'll take our next question from Luis Willard with GBM.

Luis Willard: So recently we had the chance to visit one of your operations in Mexico. Just wanted to say thanks for that opportunity. And on that line, I would like to ask about the multicategory business.

So, it's very clear to me that you're building the capabilities to really grasp that opportunity. So, the question is quite simple. I understand that a relevant part of the CapEx is increasing that you mentioned in previous course and your guidance for 2024 and perhaps the next couple of years is about distribution capabilities.

But can you directionally break down how much of that CapEx is allocated to multicategory? And if you're ready to perhaps accelerate that part of the new businesses going forward.

Arturo Gutierrez: Thank you, Luis. Let me talk a bit about our multicategory strategy and just answering your question very briefly. CapEx for that initiative is not really significant. It's not actually moving the needle at all. We are implementing some important CapEx initiatives in Mexico in our infrastructure. We actually have new production lines. We have incremental routes as well, 280 routes to new warehouses. But all of that is for our core business. It's not connected to the expansion in categories and other parts.

So, CapEx is not relevant. But it's important to mention what the strategy is on multicategory. And we've been analyzing our potential partners also for these products, not only the opportunity in beer, spirits, and also groceries. So, the main objective is to protect and potentialize our core business.

And we -- the most important learning there is that we've seen that it is connected to the improvement of our core business and also to the deployment of our digital capabilities. So, we do see a potential for the expansion in these categories. As you know, we've been piloting a beer, mostly in Ecuador and Peru, but also in Mexico. And also in Mexico, we've been expanding our reach for some grocery portfolio items, actually 230 SKUs in different categories. We are currently testing that in 140 routes approximately in Monterrey and Guadalajara.

So, we had a positive response that continues to grow and we're developing that opportunity. But mostly what's more relevant at this point is that for those customers where we have been expanding our portfolio, our presence at the store, our core business continues to improve.

And that connects to our goal of improving our relationship, our goodwill with our customers in the traditional trade. So, our plan is to expand once the test evaluations are concluded this year and continue to analyze the potential of that business. But it is not really the driver for CapEx right now.

Luis Willard: Ok, thank you.

Arturo Gutierrez: Thank you, Luis.

Operator: And we'll take our next question from Lucas Ferreira with JPMorgan.

Lucas Ferreira: Hi guys, good morning, thanks for taking my questions. My first one on the U.S., we've been seeing companies talking about some destocking of retailers in the country, some also consumers in the low-income side being a bit more squeezed in this first half, companies sort of complaining a little bit about their elasticity of the consumer. So, we see you post very strong results in the first quarter. So, wondering if you're seeing any difference there in terms of your selling --sell-outs -- that could be worth noting.

And my second question is regarding your costs for the year. So last time -- last quarter, last conference call, you said you're mostly hedged, right, 70%, 80% hedged for your raw materials for the year. Wondering if this is already kind of fully covered or these recent moves in raw material prices, especially PET, aluminum, could be sort of a headwind for the year, maybe more towards the end of the year, or not? And expectations for -- any idea on if you could be doing sort of pricing to offset eventual or functional impacts in raw materials?

Arturo Gutierrez: Yes. Thank you, Lucas. With respect to the U.S., we are actually seeing a very positive consumer environment. We have, in our regions, very good market dynamics, and that's what's been driving growth, and as I mentioned, in the different categories, as I said, brand Coca-Cola growing 3%, and we have growth in Powerade and tea. So, all in all, we are very pleased with performance, and pricing has also been in line or above inflation in recent quarters, as you know. We do have a carryover from price from '23, and increasing in the first quarter, and some promotional spend optimization, but that has not reflected in significant elasticity that would impact our business. With respect to COGS and hedges, I'll turn it over to Emilio.

Emilio Marcos: Thank you, Arturo, and thank you for your question. Yes, as I mentioned, during the quarter, we continued with stable or lower pricing of most of our key raw materials except for sugar in Mexico and Peru. But as you know, in Mexico, we have our own sugar mill, so we reduced the volatility in the prices versus the market. And in Peru, we have 85% hedged our volume in sugar, a higher price than 2023, but a lower than the market price. So, we reduced the volatility in Peru regarding the sugar prices. For the rest of our key inputs, we expect for the rest of the year to be stable or better than last year.

Of course, the current global events could represent a risk and put some pressure on some raw materials. However, as you know, we're well positioned with our hedging strategy, and as you mentioned, for 2024, we have in Mexico covered 80% of our needs of aluminum at a lower price than 2023, and 70% on high fructose for Mexico also, higher than 2023 prices, but in line with inflation.

In U.S., we have 80% hedge for aluminum, at a lower price than 2023, and also 70% of high fructose, but lower than 2023 in U.S. And you know that high fructose is really important in U.S. And in Peru, as I mentioned, we have 85% hedge for the sugar needs at a higher price than 2023, but lower than the spot prices or the market prices right now. So, we have a very good balance on hedges for the rest of the year at a better pricing than 2023.

Lucas Ferreira: Ok thank you very much guys.

Operator: We'll take our next question from Rodrigo Alcantara with UBS.

Rodrigo Alcantara: So just, I mean, it gets very simple if you can perhaps give us some examples of how the new framework relationship with the Coca-Cola Company has helped you during the quarter would be great.

Arturo Gutierrez: Thank you, Rodrigo. Well, as we explained before, that new framework has different dimensions, so I think we've been evolving very positively in all of those. We have a new economic model that's working great in terms of how we have a more stable, more predictable economic model for our relationship in our core business and sparkling beverages.

But also, part of that agreement was our expansion into the digital space. And I think that, to your point about examples, I think that's one of the best examples of how we've taken and leveraging this new alignment to expand our capabilities.

Think about our AC Digital platform. And as of the end of the quarter, 62% of our volume mix in traditional trade in Latin America was captured through this platform, which is actually a Coca-Cola and bottler tool.

So, from there, we could expand into some of the digital capabilities that we have been exploring on our own, separate from the joint effort with the Coca-Cola Company. Remember the startup that we acquired and then we expanded into a set of different functions in the market, which is Yomp.

Now that's part of the same effort. So now we're actually creating a digital ecosystem based on our B2B platform, which is AC Digital, but we're actually from there incorporating a completely new functionality to create an ecosystem with our customers.

And that has been scaled at a great pace and accelerated due to our new agreement with the Coca-Cola Company. So, I think that's probably the best example of the many things that we're doing now in a more collaborative manner with them.

Rodrigo Alcantara: Awesome. Appreciate the color. It’s good to have some empirical examples.

Operator: And we'll take our next question from Carlos Laboy with HSBC.

Carlos Laboy: Good afternoon, everyone. Arturo, can you speak to the execution markers that you had to excel at to win this Market Street Award in the U.S.? But maybe you can tie it into how you use this event, right, to galvanize the focus, the culture of the team in the U.S. And lastly, every U.S. bottler gets to see how you're doing in this effort.

And so, if you could also give us some insight on how that affects your collaboration and your relationship with some of these other U.S. bottlers.

Arturo Gutierrez: Yes. Thank you, Carlos. As you know, our presence in the U.S. now is celebrating its seventh anniversary just this month. And we have evolved in our priorities and initiatives in the U.S. in this period. We started, as you know, with the hard synergies and the projects that we had in our basic playbook for synergies and integration.

And then from there, we started working on our revenue management and pricing capabilities to make sure that we really leveraged the potential that we had there. And then we worked also on things that were probably harder to implement or would take longer, like our market capabilities. And as you know, this is not a LATAM template that you bring to the U.S. and you just apply.

This is a -- maybe the building blocks are the same, but this is a different playbook. And that's what I think has been the success of Jean Claude and the team to really adapt our experience in LATAM and also be collaborative with the U.S. bottlers to do the things that we are now really seeing the benefits in the U.S. And that is also based on what you said. It's about alignment in our own operation and alignment with the front line in those fundamental metrics.

We actually created new metrics, as you know, what we call the fundamentals, and those are the ones on the front line, now it's aligned to achieve our results.But at the end, if you look at the foundation for that, it's the culture and it's, I think, a great example of the integration of cultures from Latin America and the U.S. in our operation in Coca-Cola Southwest Beverages.

And that is also reflected in a metric, which is something that we don't talk about a lot, but it's about the engagement of the team has gone up every year for the last 7 years since we operated in the U.S.

So, we're really proud of that because the results are based on those fundamentals of metrics in the market, and also fundamentals of the engagement of our team and our front line as well.

And actually, that has not affected collaboration in the U.S. The U.S., as you know, is a very integrated system. We participate with all of the bottlers, and it gets very competitive. We all know everybody wants to win, but I think it's a very healthy competition and we still have a lot of good practices that we continue to exchange and learn from the major bottlers in the U.S. As you know, we're very close to Coke United for many years, but we've also had a great partnership with all the major bottlers in the U.S. as well. So that has not changed throughout the years. Actually, I would say that has increased in the last years.

Operator: Thank you. This concludes today's Q&A. I would now like to turn the call back over to management for closing remarks.

Arturo Gutierrez: Thank you and on behalf of Emilio, Chuy, the IR Team and myself, I would like to thank you for your interest in Arca Continental and continued trust. We look forward to speaking with you again soon. Have a great day.

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

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