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Arca Continental 2Q24 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 to review the results for the second 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: Thanks Melanie and good morning, everyone. I want to thank all of you for joining us today to go over our second quarter and first half performance.

Let me start by saying that we are pleased with our second-quarter and year-to-date results. At the halfway mark of 2024, we are delivering consistent topline performance and seeing positive momentum in our underlying business.

With this as the backdrop, let’s now discuss our consolidated results.

Total volume was flat in the quarter resulting from growth in Mexico, which was partially offset by volume declines in South America and the U.S. Our year-to-date total volume grew 0.1%.

Total consolidated revenues rose 4.7% in the second quarter and 2.5% year-to-date, to $58.7 billion pesos and $109.4 billion pesos, respectively.

On a currency neutral basis, revenue in the quarter rose 8.7% and 8.6% in the first half of the year.

Consolidated EBITDA grew 7.5% in the quarter and 4.6% year-to-date, reaching $12.2 billion pesos and $21.8 billion pesos, respectively. Consolidated EBITDA margin for the quarter reached 20.7% and 19.9% year-to-date.

Remarkably, this is the highest consolidated EBITDA margin for a second quarter over the past seven years.

On a currency neutral basis, EBITDA grew 9.4% in the quarter and 9.1% in the first half.

This is the highest EBITDA for a quarter in our history as a publicly listed company and, for the first time, we surpassed the $12 billion peso mark for a quarter.

Let me now dive a bit deeper into the key drivers across our geographies, beginning with Mexico, where our flagship beverage business maintained its steady upward trajectory.

Unit case volume, not including jug water, grew a strong 5%, cycling 1.9% in 2023 and 5.2% in 2022. This is the highest volume performance for a second quarter in Mexico since the merger of Arca and Grupo Continental in 2011.

Volume performance was led by growth across all categories with sparkling up 3.6%, water 7% and still beverages 17.3%.

Sparkling beverages represented over 60% of the total volume growth, as brand Coca-Cola sustained its growth momentum, up 5% and Coca-Cola No Sugar at 16.4%.

Outstanding growth in the water category was supported by strong execution, capturing “on the go” consumption while fulfilling the high consumer demand in our territories.
Growth was driven by the modern trade, up 10.4%, with solid growth in convenience stores at 10.8%. Traditional trade also posted steady growth at 3.3%.

The on-premise channel continued its positive trend, growing by 0.8%.

We strengthened our market leadership position as we gained value share in NARTD beverages this quarter, driven by strong performances in all our channels.

Total net sales in Mexico rose 10.8% in the quarter, reaching $29.5 billion pesos. This marks the thirty-second consecutive quarter of net revenue growth. The sustained revenue increase over eight years showcases the vast opportunity for growth in our territories.

Average price per case in Mexico in the quarter - not including jug water -, rose 5.8%, reaching $86.04 pesos.

EBITDA increased 13.8% to $7.5 billion pesos in the quarter, representing a margin of 25.3% and marking the twenty-second consecutive quarter of EBITDA growth. We keep improving profitability, driven by selective price increases and key investments in marketplace initiatives.

During the initial six months of the year, we deployed more than 36 thousand cooler doors, including 11 thousand that are specifically tailored for flavors, refillable presentations, and new categories.

Certainly, our Mexico beverage operation is proof positive of our growth mindset, and we remain encouraged by the long runway for upside.

Moving now to our beverage business in South America, total volume was down 9.9% in the second quarter, reaching 137 million unit-cases.

Our volume performance lapped tougher comparisons, cycling a strong 12% volume growth in 2023, 15.7% in 2022 and 30.6% in 2021.

Total revenue was down 7.2% in the quarter, to $9 billion pesos, while EBITDA decreased 13.4% to $1.3 billion pesos, representing a margin of 14.9%.

We have further strengthened our revenue management strategies, adapting our portfolio to address these challenging market dynamics, doubling down on execution, and remaining focused on cost discipline and efficiency.

In Ecuador, a new state of emergency was recently declared in seven provinces, aiming to tackle an upswing in drug-related violence with swift measures to restore order and keep the economy on track.

Against this challenging backdrop, our beverage business posted flat volumes, cycling solid volume growth in the second quarter from the three prior years.

Despite the prevailing economic turmoil, we gained value in NARTD beverages, driven by growth in the cola segment, up 0.6% and supported by our affordability initiatives, particularly with returnable packages. The mix of these packages increased 1.5 percentage points in the quarter. Furthermore, we are swiftly advancing in our plans to roll out our multicategory platform in Ecuador. We are expanding distribution of beer to 35% of our territories, with four brands and 14 SKUs.

Moving over to Peru, volume for the quarter was down 10%, from a 17.4% growth in same quarter last year and following twelve consecutive quarters of volume growth.

Despite the sharp slowdown in the economy, weakening consumer demand and unseasonably cold temperatures, our beverage business sustained a solid market share.

We remained focused on affordability, as we continued investing in returnable bottles. To this end, we accelerated coverage of the “Universal Bottle” format.

I will conclude my commentary on South America with our beverage business in Argentina, where consumer spending has been adversely affected.

In the second quarter, volume was down 21%. However, it is worth nothing that this decline was milder compared to the first quarter of this year.

Notably, we achieved value share gains in NARTD beverages, driven by our still beverage portfolio and efforts to promote affordability through returnable bottle initiatives. Importantly, our mix of returnables increased 8.7 percentage points.

Nonetheless, while uncertainty remains high, we are optimistic that the economy is beginning to cement a recovery path in the second half of this year.

Our beverage operation in the United States closed out the second quarter with an outstanding financial performance, delivering solid profitability improvements and its twenty-fifth consecutive quarter of EBITDA growth.

Net revenues for the quarter rose 6.7%, to $1.1 billion dollars.

Net price grew 7% with a true rate increase of 5.4% and 1.7% in mix to reach $9.64 dollars per case, driven by our price strategy and optimizing promotional activities in all portfolios.

During the quarter, volume decreased slightly by 0.3%, mainly because of a change in the distribution model of the Dasani 16oz 32-pack for one of our largest customers. Excluding this effect, volume in the quarter grew 1%.

Coca-Cola Zero was up 5.2%, while the stills portfolio delivered 6.5% growth, driven by Powerade, Monster, Smartwater and Fairlife.

It's worth mentioning that, following an exceptional start to the year with Monster, this past May we attained the highest monthly volume in our company's record, outperforming tier 1 Monster bottlers in the U.S. in terms of volume.

During the quarter, our mix shifted towards Single-Serve packages, increasing 0.7 percentage points, supported by the small store channel.

Importantly, our market leadership position remained strong as we gained value share in Non-Alcoholic Ready-to-Drink beverages this quarter.

EBITDA for the quarter grew 9.3% to $188 million dollars, representing a margin of 16.9%.

Furthermore, our online ordering system, MyCoke.com, sustained a monthly customer adoption rate of 95% within the Food Service On-Premise channel, serving more than 21,000 active customers.

The recent launch of the upgraded platform, myCoca-Cola.com, introduces new functionalities aimed at streamlining the ordering process through a revamped payment system and enhanced customer support. As of June, the new ordering system has been successfully implemented for 1,200 customers.

Moreover, as we announced at the beginning of this year, we are making significant strides in our effort to upgrade our bottling and distribution capabilities in the U.S.

Our investment program emphasizes the use of the latest technologies in both production and warehouse operations. The new lines will center around the sparkling business and provide a more robust product portfolio to customers and consumers.

Our Food and Snacks businesses posted a low single-digit sales decline in the quarter and a mid-single digit decline for the full year.

Bokados in Mexico posted sequential low single-digit sales increase and its twenty-seventh consecutive quarter of revenue growth. The modern trade and the wholesale segment were the top performers, driven by effective pricing initiatives coupled with enhanced management of discounts.

Wise Snacks doubled down on its cost efficiency program and streamlining supply chain operations.

Furthermore, Wise is making targeted investments in marketing and brand-building activities to bolster its core portfolio and reach a wider consumer base, especially at sports venues in the New York City metro area.

Wise is also taking advantage of key tie-in opportunities with Coca-Cola bottlers in the northeast region to offer attractive cross promotions in key channels.

Inalecsa in Ecuador posted a low single-digit sales decline in the quarter.

Despite the slowdown in the economy, Inalecsa has consolidated its presence as a market leader in salty snacks categories, through a compelling price-value offering and consumer-driven innovation.

I'd like to conclude by sharing some important news in our sustainability agenda.

Arca Continental was recognized by the Mexican Stock Exchange for obtaining the highest overall score in Mexico for the Standard & Poor's Global Corporate Sustainability Assessment.

This honor highlights our commitment to operational excellence and transparency, as well as our dedication to creating sustainable value for our shareholders and the communities where we operate.

This award also honors our associates, who bring our sustainable business model to life, driving our profitable growth while positively impacting the environment and the communities we serve.

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

Emilio Marcos: Thank you, Arturo. Good morning, everyone, and thank you for taking the time to review our financial performance for the second quarter of 2024.

We delivered another quarter of solid financial results driven by the effectiveness of our revenue growth management initiatives. Our commitment to financial discipline was key to achieving EBITDA growth and expanding our EBITDA margin, even as we faced ongoing macroeconomic challenges in some of our markets.

Let me now provide you more details on our financial results:
Our consolidated revenues rose by 4.7% during the quarter and 2.5% year-to-date, driven by our price/pack initiatives that allowed us to selectively adjust prices while maintaining product affordability.

On a currency-neutral basis, revenue grew by 8.7% in the quarter and 8.6% in the first six months, as we faced FX headwinds caused by the appreciation of the Mexican Peso.

In the second quarter, gross profit posted a 7.1% increase, reaching $27.6 billion pesos, while the first half of the year experienced a 4.9% rise, amounting to $51.6 billion pesos. Gross margin improved by 110 basis points in the second quarter and 100-basis points in the first half.
These results were mainly due to our strategic pricing initiatives, robust hedging practices, and a more stable environment for most of our key inputs.

Operating income for the quarter reached $9.9 billion pesos, reflecting an 8.3% increase compared to the same quarter in 2023. The operating margin expanded by 60-basis points, primarily driven by our top-line growth, and favorable raw material pricing.

For the first half of the year, operating income totaled $17.4 billion pesos, marking a 5.4% increase and a 40-basis point margin expansion compared to the same period in 2023.

In the second quarter, consolidated EBITDA increased by 7.5% to $12.1 billion pesos, with a 50-basis points margin expansion to 20.7%. Year-to-date, EBITDA grew by 4.6%, with the EBITDA margin expanding by 40-basis points to 19.9%. On a currency-neutral basis, EBITDA rose by 9.4% in the quarter and 9.1% in the first half of the year.

Net income for the quarter increased by 15.2%, reaching $5.4 billion pesos, resulting in 80-basis points expansion in net profit margin. For the year-to-date period, net income totaled $9.2 billion pesos, marking an 8.8% increase compared to the previous year, with a 40-basis point expansion in net profit margin.

The performance of the contribution margin and operating income contributed to these favorable bottom-line results.

Now, let´s turn to the balance sheet:

As we mentioned in our last call, on April 11th, a dividend of $3.8 pesos per share was distributed, resulting in a payout ratio of 37% of retained earnings and a dividend yield of 2.1%.

As of June, cash and equivalents amounted to $24.7 billion pesos, while total debt stood at $47 billion pesos, resulting in a healthy net debt to EBITDA ratio of 0.5x times.

We remain confident in our business strong potential and are committed to sustaining consistent organic growth.

Furthermore, we continue to ramp up our productivity and digital transformation initiatives to maintain our market leadership and enhance profitability.

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

Arturo Gutierrez: Thanks, Emilio

Looking at the remainder of the year, while there is still some volatility at the macroeconomic level, our beverage industry and the markets we participate in, remain vibrant and growing.

We have a world class commercial leadership team and industry advanced revenue growth management capabilities that enable us to drive affordability and premium offerings

We will double down on our digital transformation agenda and continue exploring how technology can streamline our operations, transform the customer experience, and generate new sources of revenue.

In closing, we believe that Arca Continental is best positioned to capture growth in total beverages. We have an established business with a proven track record and unwavering commitment to stakeholder value creation.

We will stay focused on improving returns, refining market execution, expanding into new categories, capturing additional share, and growing per capita in our markets.

That concludes our remarks, operator we are ready to open the floor for questions please.

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 Felipe Ucros with Scotia Bank.

Felipe Ucros: Thanks operator, and good morning Arturo, Emilio and team. Thanks for the space. I wanted to focus a little bit on returnables. First, the pilot in the US. It seems like the pilot in FSOP was successful. If I remember correctly, something like 15% of your customers were participating in that pilot as you announced it last year, maybe that increased throughout the year. But can you talk about the results and how you're planning for the pilot to expand in the future?

And then also on returnables, but more broadly rather than on the US? When I think of returnables, I see two possible forces that drive the penetration of the format. Sometimes it's the bottler pushing for the format due to efficiencies, profitability…sort of like when you introduced the universal bottle, right? And sometimes it's more of a pull action from the consumer looking for affordability. And in some LatAm countries you've been seeing penetration rising pretty sharply; Argentina is perhaps the most obvious one. But you've also mentioned Ecuador. Not sure the same things happening in Peru, but just wondering if you can comment on the forces that are driving the penetration, whether it's a push or a pull. Thank you.

Arturo Gutierrez: Thank you, Felipe. And, yeah, you got it exactly right. There are several factors that are relevant for the deployment of returnable formats, and it's a combination of those, and they vary depending on the market. You spoke about affordability and the efficiency in our supply chain. Also the flexibility in the case of the universal bottle, the possibility of offering different products with the same bottle. In the case of, I would add, probably another one, which is the purchase decision by our consumer is made at home and not at the point of sale, which I think that's quite relevant if you consider that as a huge competitive advantage of our system. So, it plays those different roles depending on the market. Certainly in Argentina, it is more appealing now because of affordability and that's why the mix has grown significantly in Argentina.

In other places, it really plays a role of balancing the price pack architecture, as you see in the case of Mexico, in certain channels, and also to strengthen the traditional channel many times as compared to a large store format. So, for us, it's a very important tool, and we continue to invest in returnable bottles, in our supply chain with universal bottles. So, it will be a significant part of our portfolio going forward in every market, playing all those different roles. And then if you add sustainability, that also becomes important. And that maybe explains more to your first point about our pilot in the US. You know, we know that in the US, returnables are not going to be as relevant as in Latin America, for sure. We expanded our pilot to San Antonio together with El Paso, and this is mostly focused to the food service channel. The other good thing about this is many times the glass packaging is also an advantage. So we closed the second quarter with approximately 450 customers that are offering refillable glass bottle options. I think it’s interesting to follow up. It's obviously not going to be rolled out to every channel.

Felipe Ucros: Very clear, thanks a lot.

Arturo Gutierrez: Thank you, Felipe.

Operator: Thank you. We go next now to Lucas Mussi at Morgan Stanley.

Lucas Mussi: Good morning guys, thanks for taking my question. I wanted to hear a bit about colas in Mexico. This quarter you guys had a particularly strong performance at +5% growth. Could you share more details on the ongoing dynamic as it pertains to market share in the region? Are you still grabbing share of the margin? And where do you see the biggest opportunity here that you can tackle? Is it related perhaps to a specific SKU? Is it more related perhaps due to presentation? Where do you see the biggest opportunity today as it pertains to market share? Thanks, guys.

Arturo Gutierrez: Thank you, Lucas. Well, yeah, we had a very strong performance in Mexico, and I would say in mostly every category. In colas, sparkling grew 3.6%, as you know. And Colas was very strong, driven mostly by Coca-Cola with No Sugar. That's growing double digits in volume. So in terms of market share, we also had a good quarter of recovery of share. And I think that is the result of the many things that we're doing. It's a combination of our basic playbook of execution and improvement, but also all the new capabilities that are being rolled out that we've mentioned before and that we keep improving and refining to accelerate growth.

And we told you about segmentation, about how our suggested order continues to be rolled out of our sales potential segmentation based on next best SKUs, but our digital platform that continues developing and expanding our core portfolio. And also very importantly in the quarter and throughout the summer is how we keep investing in our supply chain, in incremental production lines, in additional routes, in cold-drink equipment. So I think that's driving growth in every category at the same time that we maintain profitability.

So if you look at our volume in Mexico in the second quarter is the highest volume that we had since the merger, our highest volume ever. Last May was our-- the month with the most volume in the history of our company. And in June, we also had a very good performance, even though we had a tropical storm at the end of June that disrupted our operation for a few days. We lost some volume, but still, you see very, very strong performance. And the way we think is, if Mexico has this big runway for growth, imagine our other markets that have much more per capita. So we, to answer your question, we find opportunities in all of our categories really in Mexico.

Lucas Mussi Thanks, guys.

Arturo Gutierrez: Thank you, Lucas.

Operator: And we'll take our next question from Rahi Parikh of Barclays.

Rahi Parikh: Hey, everyone, thanks for the time. For our question, we're wondering, are you seeing different consumer reactions to price actions now versus prior periods and per region? Is

South America much more vulnerable, or is the price elasticity comparable to Mexico and the US? Thank you.

Arturo Gutierrez: Thank you, Rahi. Well, price, as you know, and revenue management is a very, very important process for us, we've been refining our capabilities. So, what we think is very important here is to, again, improve the way we handle this process. Our strategy is to increase prices in line with inflation, or sometimes above inflation if we have that opportunity. And for many years, we have demonstrated that we have that pricing power capability.

We've been deploying new tools, which is very important now, mostly in Mexico and now in South America. And we continuously monitor our pricing dynamics in the market to remain competitive. So, if you look at what we've done this year, we've increased prices in every market, and we followed up on our price gaps with competitors, the performance of volume in that market, and we have not seen that volume performance is really the result of price increases or elasticity. There is some elasticity, for sure, in the categories, but I think we've learned over the years that many times it's much lower than we thought initially.

And we've learned that also when we had to pass through taxes many times, as we had to do in Mexico ten years ago, elasticity is not as relevant as we first estimated. So, it does not explain really the variations in volume. We've had some soft volumes, as you know, in South America, but that the result is, that's a result of other factors, both in Peru, the comparisons, the weather in Argentina, the consumer environment. And also very important for us is to balance our price architecture with affordable packages, mostly with returnable. So, that kind of counterbalances our price increases to maintain our competitiveness in the market. So, yes, we're very satisfied with what we've done in terms of pricing in every market.

Rahi Parikh: Thank you.

Arturo Gutierrez: Thank you, Rahi.

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

Alejandro Fuchs: Hello, Arturo, Emilio and Jesus, thank you for the space for questions and congratulations on another set of strong results. I have two brief questions, if I may. First is in the U.S., we saw the volume slightly year-over-year with 1% growth, excluding the Dasani impact. But looking at the comps last year, I think that this result is still much lower than what we saw in the first quarter. So how do you see volumes in the U.S. developing for the rest of the year? Anything that concerns you on the consumer side, for some of the U.S. for the rest of 2024.

And then on my second question if I may very quickly South America with Peru, with volumes dropping 10%, with tough comps, of course. But how do you see Peru improving going forward? Any color that you can share will be very helpful. Thank you.

Arturo Gutierrez: Yeah, thank you, Alejandro. First, talking about the U.S. Well, the U.S. is a very competitive market, as we know. Growth is not the same as in a much more developed market, the same as in our Latin American markets. And so what we try to do is we expect to continue growing, but at the same time, increasing market share and improving our profitability, as we've done before, our transactions are growing. That's a very important metric that we follow.

And we found opportunities going forward in packaging, innovation, developing categories, the categories that are going to bring more growth are energy enhanced water sports drinks, But also sparkling has a significant upside, especially as we capitalize on the growth of Coke Zero Sugar in the U.S. as well.

One important thing that keeps us excited about the U.S. market is we operate in very dynamic regions. So that also will be important for future growth. And we have, on our things that we need to do on our own is there's opportunities to improve execution and also, very importantly, improve our supply chain and reduce out of stocks. We've been implementing new tools for forecasting demand, improving our fill rate, and also deploying the digital tools that we've developed in Latin America - - suggested order algorithm and our trade promotion optimization tool.

So there are a number of new initiatives, digital initiatives in the U.S., more than 15 initiatives that we're deploying that will also help us capture that opportunity in the marketplace. And there's other exciting things coming - - campaigns, more innovation I would say in the US market. The Olympics are an opportunity as well, opportunities to increase sharing stills category, very specifically isotonics with Powerade and Body Armor. But in summary, we're balancing growth and profitability for the business. We're improving RGM and digital capabilities, and we are addressing opportunities in the supply chain. I think those would be the key takeaways in the U.S.

With respect to Peru, volume in Peru certainly had this very challenging comps from - not last year - from the last two years. So, we've been growing 17% in the second quarter of '23, but also 17% growth in volume in the second quarter of '22.

So, if you think of growth, we know it's not going to be growth in a straight line in those markets, but we do not see any fundamental change in our long term growth prospects in Peru. We know we're doing the right things. We have the basic playbook, for example, coolers is a tremendous opportunity in Peru. If you look at our cooler coverage of 39% versus 86% in Mexico, that's quite an important opportunity. And also we are deploying the digital capabilities playbook, and that also is going to materialize in growth. And we have also the opportunity to regain growth, particularly in the stills categories and in the Inca Kola brand that also has not been performing as before. So, we know exactly what we need to do. I think we're focused on the right things. And again, the current situation has not changed our growth prospects for that market.

Alejandro Fuchs: Very clear. Thanks very much, Arturo.

Arturo Gutierrez: Thank you, Alejandro.

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

Fernando Olvera: Hi. Good morning and thanks for taking my questions. A follow up in Mexico. Arturo, if you can explain the strong volume growth seen in still beverages, and how should we think about this category going forward? That's the first one.

And the second is related to the snacks business, if you can comment, I mean, the business grew low single digits. So, if you can share how much came from volume and how much for pricing, it would be really great. Thank you.

Arturo Gutierrez: Thank you, Fernando. I'm going to talk about stills in Mexico and then turn it over to Chuy for the snacks questions. Well, if you look at stills categories in Mexico and you look at the mix of those categories, as compared to more developed markets, you will clearly know where the opportunity lies. And as you know, Mexico is a very developed market in the NARTD industry. But in stills, we still have a long runway, particularly in sports drinks, in tea, in the traditional categories, in coffee, I would say, and also to introduce some of the subcategories that have been successful in more developed markets.

So as we improve our capabilities to go to market, what we're actually doing is to expand our bandwidth of our frontline to approach customers. So that has been the key factor to develop categories like the stills, basic categories, again Powerade, juices, tea, in the last few years.

And at the same time, we're improving our go-to-market models for the modern trade as you know, that's also been a factor so far, and will continue to be a factor. We are changing our service model to the modern trade, delivering certain brands on a DST basis - direct to the stores - and improving execution in large stores and convenience stores in our markets. And that's also proven to bring incremental volume.

So again stills is going to be a significant source of growth, and it's going to be an important part of the growth mix going forward as we develop those capabilities and also as our regions continue to develop and our consumers have more disposable income in some of these more, I would say, premiumized SKUs and products.

So I'll turn it over to Chuy to talk about our snacks business that continues to improve, especially Wise in the U.S., improving margins and optimizing its operation and supply chain. Go ahead, Chuy.

Jesus Garcia: Thank you, Arturo, and thank you, Fernando, for your question. As you saw, our snacks business in the second quarter increased EBITDA by 4.5%, and in the first half of the year, our EBITDA grew 11.5%. Related to your question as to whether that is based on volume or pricing, improvement is really a combination of both.

The business in the U.S. has been focusing on really improving the portfolio profitability and the brand equity. And so pricing has been the main factor for our results. But obviously, we're concentrating in generating the optimal price package architecture and ensuring and aiming to be the best alternative for the customers. If you see our business in Ecuador, that has faced some challenges, basically related to the new tax reforms in the country, the insecurity that we're facing in the country and pricing is really also what's improving the results over there. Always trying to go with inflation. As Arturo mentioned, we're doing a lot of cost reduction initiatives in all the operations, and that is what is enabling us, along with some tailwinds in the raw materials to deliver these results.

The case of Bokados is really a combination of both. Bokados is growing both volume and pricing, increasing routes and capturing additional customers in the traditional trade, just as we do in Ecuador and the U.S. We have a lot of focus in quality, improving flavors and packages across our portfolio. And given the somewhat recent acquisition of the Charras business, integrating the synergies of that.

Fernando Olvera: Great, thank you so much.

Arturo Gutierrez: Thank you, Fernando.

Operator: And we'll take our next question from Alvaro Garcia with BTG.

Alvaro Garcia: Hi, Arturo, Emilio. Thanks for the space for questions. My question is on Mexico pricing, and I have a follow up on snacks. On Mexico pricing, the outlook for pricing is, on one hand, you have a resilient consumer, but on the other, we have a strong raw material environment, favorable raw material environment, sort of record margins, potentially weaker disposable income into next year in Mexico. So, I was just wanting to pick your brain on pricing. That's my first question.

Arturo Gutierrez: Yes, hi Alvaro, thanks for the question. Yeah, well, as you know, price in Mexico, it's not been like probably like previous year, but still we're increasing, you know, above 5% of price in the second quarter and year to date. And we do have a carryover effect from '23, but we've had price increases this year as well. And as you say, we have some favorable conditions for raw materials in some cases, but we have not changed our strategy in Mexico going forward, our pricing for '24 is expected to be at least in line with consumer inflation, regardless of our own internal inflation of our raw materials.

Again, it's very important for us that we reduce unproductive spend, that translates in better pricing with our trade promotion tool. That's improved unproductive promotions and discounts by 30% since we started deploying that tool a few years ago. And we have a new tool for price optimization that actually reduces time to analyze price adjustments, create scenarios, and that increases the capturing of the opportunity of incremental value. So, again, the message is that we're doing pricing differently year-over-year, and that's why we've been successful in reaching our goal, which has not changed.

And then we also have room to improve mixed, which improves pricing with single serve presentations that are still below our pre-pandemic levels. And as you say, the raw material environment is favorable, but our price strategy is maintained the same regardless.

Alvaro Garcia: Great, thank you.

Arturo Gutierrez: Thank you, Alvaro.

Operator: Thank you. We go next now to Thiago Ardium with Citi.

Thiago Ardium: Hello, Arturo. Good morning and thank you for taking my question. I want to, it's a bit of a follow up, so I wanted to discuss more of the volume dynamics. If we look at Mexico, you guys posted one of the best quarters in the company history, and at the same time we have U.S., that is a mature market. But this time I wanted to shift the question a bit to the long term, right. If we look at these two segments, picking your brain here, right. How should we see Arca in a couple of years, like down the road.

And the second, now shifting back to the short term. We discussed a bit of market share dynamics in Mexico already, but I wanted to maybe hear a bit more for the specific regions in South America and U.S. That's my question. Thank you.

Arturo Gutierrez: Thank you, Thiago. Well, yeah, looking forward as we plan ahead, and we're actually in our long-term planning process now and looking at volumes in every market. And we have not changed our views on the opportunity that we have for growth, even in what we would call the most mature markets, and we don't want to call them that because we still find, as you've seen, growth in Mexico, and it's quite ironic where we have high market share, high per capitas, and this is the market, that it's growing faster. So, what that tells you is that there is still plenty of opportunity to grow in the NARTD industry.

I would say everywhere in the markets where we operate, we have the advantage also in having very dynamic regions economically. If you think about where we operate in Mexico, what all the new investment and development in this part of our country, if you look at the U.S., the southwest, Texas, all what is going on in the region of Texas and Oklahoma. So that's definitely tailwind for us. But also we're excited about the things that we're doing and the opportunities that we find in the market. If you go to our markets, there's still things to do. Even the most basic things in our supply chains of how we serve the market better, particularly in this time of year when demand goes up in Mexico and the U.S. in the summer, we found that we've not been serving the market the way we should. So we've been investing and we've improved from last year, but we still haven't really reached our destination of where we want to be in terms of our capabilities.

And also as we deploy new tools both for pricing and just for incremental volume, we also find that there's a big runway. And then if we look at categories, we still find opportunities. I mentioned before, and as we expanded Mexico to rural areas, for example, we found that to be a big opportunity. So that's what's exciting about our business. And as I said before, if Mexico has a big runway for growth, you can only imagine what other markets can bring.

And again, if you look at South America, well, growth, as I said, is not going to come in a straight line. And we know that. And everyone that operates in South America knows that we have volatility, but the playbook is pretty much the same. And that's also the advantage of having the scale and the development of capabilities in a centralized way.

We do have some particularities in markets that we need to adapt some of the tools, but our basic playbook remains the same, both on the things that we've been doing for a long time – you know, coolers and execution at the point of sale, and also the new capabilities based on platforms and analytics. So that's why we remain optimistic about growth in the South American markets, although this has not been-- not going to be a great year we know that. But again, it has not changed our view on growth prospects in those regions either.

Thiago Ardium: Fantastic, thank you very much.

Arturo Gutierrez: Thank you, Thiago.

Operator: We'll take our next question from Ulises Argote with Santander.

Ulises Argote: Hi guys, thanks so much for the space for questions. So I had one regarding the U.S. operations there. So obviously you mentioned there in the release that you're reaching the most profitable quarter and we have seen kind of a positive evolution here. We also just wanted to see, Arturo, if you can speak a bit about what has been most recently, the key drivers around this improvement, obviously, beyond the favorable raw material environment that we have right now. And this after that initial set of synergies that were discussed when you took over those operations. And also kind of on top of that, maybe if you could comment a bit on the outlook for profitability there in the region and how you're seeing those dynamics. Thank you so much.

Arturo Gutierrez: Yes, thank you, Ulises. I will talk a bit about U.S. performance and what we're doing in many fronts, and then I'll turn it over to Emilio to talk about profitability in that market as well.

So I think in the U.S., we have improved very much our execution in the market. And that's not only what we believe internally, but it's been recognized, as you know, by the North American system. And we were awarded the Market Street Challenge and we've said that before as being the best operation in the U.S. in '23.

And that's very motivating for our team as we have been focused on improving our service to our customers in every one of the channels. How have we done that? We are deploying new tools in the market. We're changing also incentives to the frontline. We are also innovating in some of our packages, focusing on high profit per case packages such as mini cans 1.5 liter those are growing. Mini cans have grown 3%, 1.25 is growing 13%. So we found that the packaging innovation is also relevant. I spoke about the implementation of demand forecast tools, reduced out of stocks, our next phase of the suggested order algorithm, expanding and scaling our TPR - trade promotion optimization tool. And also the rolling out of mycoke.com, our platform for mostly the on-premise market. We've had an adoption rate of 95%. And now, even in small stores, we are also rolling out that platform.

We've optimized cooler placements, again using our new segmentation models, we've launched a number of SKUs. The U.S. is more dynamic in that regard. This year we plan to launch 70 new

SKUs, and about 26 of those are already launched. In the second quarter we have new campaigns. As I said, we're focusing on stills and in general, we're trying to balance our growth and our profitability, focusing on higher profit per case packages, focusing on transactions.

We are also targeting specific opportunities to increase our efficiency. We're improving our logistic network by using tools to determine which products should be produced in each site, minimize logistics costs. We are investing in predictive maintenance to improve mechanical efficiency. We are expanding our procurement team to focus on certain opportunities jointly with Coca-Cola Bottlers Sales and Services, which is the system organization that collaborates with us for procurement.

We are lightweighting in bottles, we're investing in warehouse expansion to maximize space and enable longer production runs, incremental fill rates. So, there are a number of things that we're doing. One of the biggest projects in the U.S. is expanding our production footprint that will result in supply chain efficiencies. It's a big investment in the next three years, two more production lines and warehouse expansion, and also investment in automation - that will improve our production cost as well.

So, again, it's a long list of things that we're doing and that will continue to sustain our profitability and margins going forward. I will turn it over to Emilio if he would like to add something to that.

Emilio Marcos: Thank you, Arturo. Thank you for your question, Ulises. Well, we can see the results of everything that Arturo just mentioned. We have a very strong quarter and year-to-date. We have grown EBITDA on the quarter 9.3% and 9.6% year-to-date and increasing - improving our margin, 40 basis points in the quarter and year-to-date. The quarter had a margin of 16.9% and year-to-date 16.3%. So, moving ahead, we'll continue with everything that Arturo just mentioned. And also we see a positive outlook for raw materials for the rest of the year. So, we are very confident to keep up with a positive trend on profitability at the level that we have so far.

Ulises Argote: All right. That's perfect. Thanks so much, both for the details and for all the color.

Arturo Gutierrez: Thank you, Ulises.

Operator: And we'll take our next question from Kevin Zavala of UBS.

Kevin Zavala: Good morning. Arturo, Emilio, congrats on the solid results. Can you comment about the rationality and economics behind the channel distribution model of Dasani in the U.S.? What is the probability that we may see this happen to other products or categories? Thank you.

Arturo Gutierrez: Thank you, Kevin. Well, the case of Dasani, it does move the needle in volume, and that's where we wanted to explain that. This is part of, I would say, the normal course of business as we make adjustments to our distribution models. And the idea here is to serve better our customers in that market and to ensure the most efficient Go-to-Market model. This is, again - this is done jointly with the Coca-Cola Company. So, the Dasani 32-pack has changed in its model to warehouse delivery - from DSD to warehouse delivery for just one of our customers and this particular SKU is manufactured by a third party. So, this really makes sense as this is just one SKU, one account. There are no plans for additional items or accounts. And this is the type of opportunity that comes up from time to time and that we continue to analyze.

Our DSD service - or DSD model - continues to provide the best route of market, that's for sure, to keep our customers in stock and deliver our goals. But this is really an exceptional case that we believe it makes sense. And very importantly, the change, although it will have an impact on the top line of the U.S. operation, it will have no effect on the bottom line as we will receive a fee for the delivery of this product. So, you'll see that and we'll have to make a note to make the volume comparable. But at the end, for purposes of profitability, there's no impact. And I think that's very important to point out.

Kevin Zavala: Thank you.

Arturo Gutierrez: Thank you, Kevin.

Operator: Thank you. We go next now to Federico Galassi at TRG. Federico, your line is open. If you have a question, you might check your mute function.

Federico Galassi: Hello, Arturo, Emilio. Thank you for taking my questions. Some of the questions was answered before, but if you can remember us, how we say, at what level of the Mexican peso have you covered for this year and next year, only that.

Arturo Gutierrez: Yes. You're talking about hedges of Mexico exchange rate, of dollar peso exchange rate?

Federico Galassi: Yes.

Arturo Gutierrez: Okay, I'll ask Emilio to address that point.

Emilio Marcos: Hedges for foreign currency. Sorry, I couldn't hear the question. But if you're talking about FX hedges for Mexico, we cover 100% of our needs already at lower levels than 2023. So we have a positive effect on our P&L, but there are a little bit higher than the current levels. We also hedge 80% of our needs in Peru at a lower level, also than 2023, in line with the current levels. It's been a very strong currency in Peru. And we started to hedge some of the needs for 2025 for Mexico and Peru already at the current level. So we're working on that, we have so far covered 50% of our needs for 2025 in Peru and 80% in Mexico.

Federico Galassi: Okay, thanks.

Arturo Gutierrez: Thank you, Federico.

Operator: We'll go next now to Lucas Ferreira at JP Morgan.

Lucas Ferreira: Thanks for the space and congrats on the results. Just wondering - last quarter you said that for the full year 2024, you expected your top line, in constant currency, to grow something near high single digits. My question is if it's still the case or if it's this strong results there, especially on the volume side, they're helping?

And a follow up, if you think that weather had any booster this quarter to what to expect, especially for volume growth for the rest of the year in Mexico, which was a very, very strong.

And then the other question is, another follow up here, since we spoke about hedges, is that last time mostly you provided a guidance that 80% of your aluminum hedges were done. So how much do you have for now. My question is, basically, how much of this aluminum spike impacts you this year, if at all, or if it's something that maybe we see something happening just next year. Thank you.

Arturo Gutierrez: Yes, thank you, Lucas. I'll have Emilio answer the question on aluminum and hedges. Certainly we've seen a more favorable market for aluminum recently, which mostly benefits our US operation. In terms of volume in Mexico as we know, growth was quite remarkable in the quarter. And so far, to your question about weather, we did have favorable weather in the first part of the quarter, particularly the month of May.

We don't believe weather really explains growth in volume in the quarter because we have some, as I said, some disruption at the end of the quarter. In June, we had a tropical storm in the northeast of Mexico that disrupted our operation. And we believe that we lost actually a few million cases in sales and volume due to those days that our operations were impacted.

At the end we believe that it was a blessing because it brought a lot of rain to the region, by the way, but it did impact our volume. So, all in all, I think growth in Mexico is the result of the many factors that I've mentioned before, and a better operation and a better supply chain as well. So, we maintain our expectation of low single digit growth in the rest of the year, but more importantly, maintaining our profitability. So, I'll turn over to Emilio for aluminum hedges.

Emilio Marcos: Yeah. Thank you, Arturo, and thank you, Lucas, for the question. Yes. As we have mentioned, during the quarter, we continue to see a positive trend in most of our key inputs. We also have seen some stability on prices for sugar in Mexico and Peru, which are very important because that's the raw material that it's with the highest prices compared to last year.

And you're right, we are seeing some volatility in aluminum in the market and we have covered with hedges 80% of our needs in Mexico and U.S. So, we don't expect to have a high impact on that, because, as I said, we have 80% of our needs covered in aluminum. We started to hedge also for 2025 in aluminum, taking advantage, well, we did it a couple of weeks ago. We hedged 40% of our needs on aluminum for U.S. in very good levels.

And we also started to hedge some high fructose prices for U.S. for 2025. So in 2024, we have 100% of our needs covered for Sugar in Peru and 90% in high fructose, for high fructose in Mexico and U.S.

Lucas Ferreira: Perfect. Thank you very much.

Arturo Gutierrez: Thank you, Lucas.

Operator: Thank you. And we'll take our final question today from Carlos Laboy of HSBC.

Carlos Laboy: Yes, hello, everyone. Arturo, two quick questions. One, has Topo Chico changed from warehouse delivery to DSD at Walmart for you in the US?

And then the second question is, you've done a spectacular job of shifting the U.S. from a shelf replenishment model to a market development concept. What do you see as the most exciting thing that's ahead for you over the next year or two on the market development front in the U.S.?

Arturo Gutierrez: Hello, Carlos, thank you for your question. And, well, talking about the U.S. in general, again, it's ironic that what excites us is to find opportunities when we visit the marketplace. We agree with you that we try to bring a different perspective to the U.S. market or to every market that we integrate into our operation, thinking more of ourselves as a market developer than a distributor. And that's what we try to do in the U.S. But I wouldn't say that we've completely accomplished our goals in how we operate with every customer.

So we still have many tools that can be improved and also the way we align our team and the frontline to our objectives and our goals. And you see that in how some of the categories still have the opportunity to be developed, particularly in some of the energy, some of the stills categories.

But at the same time, we think there's an opportunity to continue innovating in the market. I think growth in the U.S., it will be more granular, of course, than before. So we need to be focused in finding those subcategories that are going to bring additional growth in the future. I think we're best positioned to do that. I'm also excited about how we collaborate as a system in the U.S., this system that you know very well, and it's quite complex, but it's worked very effectively, I would say after seven years operating in that market.

We also are excited about how to improve and expand our supply chain infrastructure in the U.S. because, as you know, there were many things to be done in our production and warehouse infrastructure when we acquired that business. So, we made some very obvious investments initially, but they're still opportunities that we found, and for sure that's going to bring more growth and improve our business going forward.

And with respect to your Topo Chico question, there's not been a change so far, and Topo Chico continues to grow in the U.S. This is also based on our expansion of our production facilities in Mexico. As you know, a new production line came into operation a few months ago, so that will continue to be rolled out in the U.S. And also it's going to be a source of growth for our own market in Texas and Oklahoma.

Carlos Laboy: Yes, we'll probably take up the Topo Chico question with Coke, because the execution you have in Texas looks fantastic, and at Walmart it's not so good.

Arturo Gutierrez: Thank you, Carlos.

Operator: And we do have one more question in queue. We'll take that now from Sarah Mavo at Santander.

Sarah Mavo: Hi everyone. Thank you for taking my question. It's a very quick one about hurricane Beryl. I want to know if it caused some impact on operations in Texas or something?

Arturo Gutierrez: Yeah, it did have some impact and some minor disruption in Texas at the beginning of this month, this quarter. It won't be really relevant for, you know, for our performance in the quarter, but we did have some impact basically in Houston and in Beaumont, our distribution center in that part of the state of Texas. But I wouldn't say it's significant.

Sarah Mavo: Thank you very much.

Arturo Gutierrez: Thank you, Sarah.

Operator: Thank you. And that's all the questions we have for today. Mr. Gutierrez, I'd like to turn things back to you, sir, for any closing comments.

Arturo Gutierrez: Yes, thank you. And we appreciate your time today and your ongoing commitment to our company. We hope to talk to you again in the near future. Enjoy your day and have a wonderful summer season.

Operator: Thank you very much, Mr. Gutierrez. Again, ladies and gentlemen, that will conclude the Arca Continental second quarter 2024 earnings conference call. Again, thanks so much for joining us, everyone, and we wish you all a great day. Goodbye.

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