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# Arca Continental 3Q24 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 third quarter and first nine months 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. Good morning and thank you everyone for joining us today. I am pleased to report that we delivered sound financial results and a solid operational performance in the third quarter.

By staying focused on our strategic priorities, we delivered top-line growth, expanded underlying margins, and increased market share.

With the first nine months now in the books, we’re on track to achieve full-year results in line with our outlook.

Let’s take a closer look at our performance.

Total consolidated volume in the quarter decreased by 4.6% to reach 634 million unit cases.

This decline follows strong volume growth in the same quarter over the past three years, which recorded increases of 7.4%, 4.2% and 7.1%.

Consolidated revenues rose 10% to reach $62.6 billion pesos.

In terms of profitability, our results were rewarding. Consolidated EBITDA increased 10.2%, reaching $12.7 billion pesos.

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

While the third quarter proved to be challenging, we achieved sequential earnings growth through a disciplined approach to volume, price and mix management.

Now, let's delve deeper into our performance across our regions, beginning with Mexico.

Unit case volume, not including jug water, declined 2.6%, cycling an outstanding 8.7% record-breaking third quarter of last year, and strong growth rates in 2022 and 2021.

Volume contraction this quarter was caused by heavy rains and unseasonably below-average temperatures across of most of our territories.

This decline was partially offset by an 8.2% growth in still beverages, mainly driven by the Sport Drinks, Tea, and Coffee categories.

Coca-Cola No Sugar sustained its momentum, up 19.1%, thanks to continuous product innovation with Coca-Cola Zero Sugar Oreo and appealing campaigns with Coca-Cola Marvel.

Total net sales rose 4.8% to reach $29.3 billion pesos. This marks the thirty-third consecutive quarter of net revenue growth in Mexico.

Average price per case in the quarter - not including jug water - rose 7.6%, reaching $85.88 pesos.

Additionally, we gained value share in non-alcoholic ready-to-drink beverages this quarter, outpacing the industry in Mexico.

EBITDA increased 6.6% to $7.4 billion pesos for the quarter, achieving a margin of 25.3% and marking the twenty-third consecutive quarter of EBITDA growth.

In South America, the region was challenged once again by the volatile macroeconomic environment and weakening consumer demand.

Total volume was down 8.6% in the quarter, reaching 141 million unit cases. Volume performance in the third quarter is cycling strong growth rates of 8.1% in the same quarter in 2023, 6.4% in 2022, and 24% in 2021.

Total revenues rose 8.7% in the quarter to $10.6 billion pesos and EBITDA increased 1.0% to $1.7 billion pesos, representing a margin of 15.7%.

Moving over to our beverage business in Ecuador, the country is facing a severe energy crisis due to the worst drought in 61 years, resulting in widespread power outages and economic challenges.

Daily blackouts now last up to 10 hours, with industrial firms ordered to cut back on electricity usage.

Volume declined 8.1%, compared to solid growth in the previous three years, which is consistent with the trends seen in our other South American markets.

While we cannot change the market conditions, we have continued to focus on the things we can control.

We gained value share across NARTD beverages by perfecting our price-pack-channel strategy, promoting returnable packages, and investing in market-focused initiatives.

So far this year, our team in Ecuador has installed over 21 thousand cold-drink units and expanding our cooler coverage.

In Peru, the country has been experiencing unseasonably cold weather, especially in Lima and other key coastal areas.

Due to these challenges, volume declined 6.7%, following strong double-digit growth in the same quarter of last year.

However, we are beginning to see a moderation in the rate of volume contraction, bolstered by our affordability initiatives and ongoing investments in returnable bottles.

We continued to advance on our strategy to capture new revenue streams. As you may recall, at the start of 2024, we began distributing one of the top Pisco brands, which has resulted in double-digit growth in our ginger ale category.

In Argentina, volume in the third quarter was down 13.1%. As anticipated, we are seeing positive signs that the economy's contraction is starting to ease.

Our actions to provide an affordable portfolio and expand returnable presentations are driving sequential steady volume recovery across channels.

Returnable presentations continue gaining positive momentum, up 9.3 percentage points in mix.

Moreover, as part of our multicategory strategy, we began distributing two prestigious brands, one in the craft beer category and the other in the value-added dairy segment.

We are encouraged by our results in Argentina and remain optimistic that this forward momentum will carry through the rest of 2024.

In the United States, Coca-Cola Southwest Beverages sustained its business momentum and achieved strong third quarter results.

Net revenues for the quarter rose 5.1%, to $1.1 billion dollars. Average price per case grew 7.6% with 3.6% of true rate increase.

This reflects our successful strategy of optimizing price packaging and promotional spending, growing transactions, and value share, while maintaining efficient labor management.

Volume for the quarter declined 2.4% to 118 million unit cases.

Importantly, the sparkling beverages category grew 1.3%, led by Coca-Cola brand and flavors.

The zero-sugar portfolio keeps growing too, led by Coca-Cola Zero and Sprite Zero, up 11.2% and 6.2%, respectively.

The Stills portfolio finished the quarter up 0.8%, as we continued to see positive momentum in Monster, Smartwater, Fairlife Core Power and Tea. The Topo Chico brand delivered 10.5% volume growth, led by Topo Chico Sabores.

We gained value share in Non-Alcoholic Ready-to-Drink beverages this quarter, with growth in both the SSD packages and Still beverages categories.

For the quarter, EBITDA grew 10.5% to $182 million dollars, with a margin of 16.2%, marking the twenty-sixth consecutive quarter of EBITDA growth.

This represents the highest third quarter EBITDA margin since we acquired the U.S. operation, setting a record for the longest consecutive growth streak across all our business units.

Our Food and Snacks businesses posted high single-digit sales increase and sustained steady earnings momentum in the third quarter, led by Bokados in Mexico.

I would like to take a moment to highlight an important announcement we recently shared.

We're thrilled to unveil the next phase of our digital transformation with the launch of TUALI, our next-generation B2B digital platform.

Our core B2B capabilities have gained significant traction, with over 60% of traditional trade volume now captured digitally, contributing $2.4 billion in digital sales.

TUALI builds on the evolution of AC Digital, aiming to further revolutionize the operations of nearly one million of our customers in the traditional trade across our geographies in Latin America.

Developed by our Digital Nest in Monterrey, TUALI is designed to empower customers by offering a wide selection of features, including AI-powered predictive ordering based on data-driven insights.
It also includes advanced loyalty programs and financial services, ensuring our customers not only streamline operations but also benefit from these new tools designed to grow their businesses.

I'd like to conclude my opening remarks with an update on our sustainability efforts.

Through PetStar, the world's largest PET recycling plant, and together with Coca-Cola Mexico and other bottlers of the Coca-Cola system, we've reached a key milestone by boosting our PET bottle collection and recycling capacity to 74%, meaning we now collect and recycle 7 out of every 10 bottles we sell in Mexico.

This is equivalent to collecting 5.5 billion bottles annually, moving us closer to our objective of retrieving 100% of the bottles we put on the market by 2030, in alignment with the global initiative, "A World Without Waste".

This milestone was achieved through PetStar's expansion, which included a $3.2 billion pesos investment. This expansion will increase the number of PET collection centers in Mexico from 8 to 45 and double the recycling capacity.

Furthermore, in collaboration with Coca-Cola Mexico, we implemented our 100th rainwater harvesting system in public schools, providing clean water to over 44 thousand students and capturing more than 27 million liters of rainwater annually.

We are committed to enhancing Water Stewardship by improving access to water in the communities we serve.

And with that, I will now turn the call over to Emilio. Please Emilio.

**Emilio Marcos:** Thank you, Arturo and good morning, everyone. Thank you for joining our conference call.

As Arturo mentioned, this was a challenging quarter in terms of volume performance due to the combination of unfavorable weather conditions and tough comps from a very strong third quarter last year.

Nevertheless, our price/pack architecture strategy, along with the FX effect and key input cost tailwinds, led to solid top line and bottom-line results, with double-digit growth in both revenues and EBITDA, with improved profitability.

Let me now provide you with further details on our financial results:

In the third quarter, Consolidated Revenues rose 10%, driven by effective pricing and exchange rate gains, as a result of our exposure to US dollars and the depreciation of the Mexican peso.

For the first nine months of the year, revenue grew 5.1%. On a currency-neutral basis, revenues rose by 5.9% in the quarter and 7.6% year-to-date. Gross Margin grew ahead of revenue, up 11.3% during the quarter, reaching $29.2 billion pesos. This resulted in a contribution margin expansion of 60-basis points.

In the 9-month period, gross profit increased 7.2% to $80.4 billion pesos, while gross margin expanded by 80-basis points. The improvement was largely due to our pricing strategy, favorable conditions for most raw materials, and our disciplined hedging strategy.

Operating Income reached $10.3 billion pesos in the quarter, a 10.2% increase. Year-to-date it rose by 7.1% to $27.7 billion pesos, with margin expanding by 30-basis points.

For the quarter, Consolidated EBITDA increased 10.2% to $12.7 billion pesos, with a 10-basis point margin expansion, reaching 20.3%.

In the 9-month period, EBITDA grew 6.6%, while EBITDA margin expanded by 30-basis points to reach 20.1%.

On a currency-neutral basis, EBITDA rose by 5.7% in the quarter and 7.9% as of September.

This result is explained by the expansion of the contribution margin, which is mainly due to strong pricing, and the raw material benefits previously mentioned.

Net Income in the third quarter reached $5.1 billion pesos for an increase of 13.1% and the net profit margin increased by 20-basis points.

For the nine-months ended in September, net income rose 10.3%, reaching $14.3 billion pesos, while net profit margin expanded by 40-basis points.

Continuing with the balance sheet:

As of September, cash and equivalents reached $28.1 billion pesos, while total debt was $48 billion pesos, leading to a leverage ratio of 0.45x times. The operating cash flow totaled $29.7 billion pesos.

On August 29th an extraordinary dividend of $2.50 pesos per share was paid, reaching a total dividend of $6.30 pesos per share for the year. This implies a dividend yield of close to 3.4% and a payout ratio of 62% of retained earnings.

For the first nine months of this year, CAPEX was $10.6 billion pesos representing 6% of Consolidated Revenues in line with the guidance set at the beginning of the year, as we strengthen our production, distribution, and commercial capabilities.

Looking ahead, our strategic priorities remain unchanged. Our commercial strategies, Capex deployment, sustainability initiatives and the implementation of the digital transformation agenda, will enable us to maintain overall profitability and generate value for our shareholders.

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

**Arturo Gutierrez:** Thank you, Emilio.

In closing, we're pleased with our overall year-to-date performance. Our superior execution capabilities, the strong brand equity of our product portfolio and our exceptional team of dedicated associates, provide a solid foundation for navigating a competitive landscape.

Looking ahead, we're confident that we are in line to deliver full-year results consistent with our guidance.

Thank you for the time, and we're now happy to answer your 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 Alejandro Fuchs with Itau.

**Alejandro Fuchs:** Thank you, operator, Hello Arturo, Emilio, Jesus and team. Thank you for the space for questions and congrats on the results. Very two quick ones from my side. First, in the U.S., another strong quarter in terms of margin performance. Maybe you could walk us through what is driving the better margin performance and if we already seen some of the benefits from the efficiency program in the distribution that you mentioned a couple of quarters ago.

And then the second one very quickly on Mexico. Volume comp. was very challenging, but maybe the drop was a little bit tougher than expected. I was wondering if you could comment on how you see overall consumption in Mexico towards the end of the year and your expectations for next year. Thank you.

**Arturo Gutierrez:** Yes, thank you, Alejandro. Let me address your Mexico question first. And consider volume without jug, we were down 2.6%. But we were cycling very tough comps from last year. We had a more than 8% growth in the same quarter. And we also were facing a very difficult temperature and weather conditions throughout the quarter. If you think about rain, if you think about how warm it was last year, particularly, that reduced traffic in stores, but we continue to see growth for the remainder of the year.

There's a mild industry construction due to that, but we -- again, we're facing the highest-growing period from the previous year. Some of the insights we have from our own system from Yomp!, as you know, we are we monitor traffic consumption in the stores through our own sample of stores, we saw a slowdown in some categories, but regional performance is starting to recovery particularly in the West side of Mexico. And we are gaining share value in our market in Mexico. So, we still expect to grow low single digit versus previous year if we take 2024 as a whole. And we are focusing on things that we've already talked about, affordability very important on deploying our analytic capabilities on our cooler investment plan that now we've reached 100% of that deployment. And very importantly in Mexico and for the future, we're going to be capitalizing on the new investments that we've made throughout the year. We've added six new production lines, two new distribution centers are coming into operation very soon. And we also added 280 additional routes. So that's reflected in some of our OpEx, but that's again it's going to be capitalized through the end of the year and throughout the rest of the year in 2025. So we're optimistic about growth. Again, it's not going to be a straight line as we know in Latin America, but we still expect to grow in the year.

Then moving into the U.S. and you asked about profitability in the U.S. Our EBITDA for the quarter grew significantly. Our margins, we're very satisfied with our margins above 16%. We've had mostly a combination of very good pricing and volume mix. Our pricing tools, our promotional tools have been very effective. We've had some raw materials tailwinds, but a good strategy also and good negotiations and hedging. And many of the efficiency projects that you mentioned are also coming into effect throughout the year and for the future. We have a number of projects in all of our operations, but specifically in the U.S. that are going to be very relevant to maintain sustained margins for the future.

We've been working through a digital transformation and project transformation office to focus on the most important initiatives to gain productivity. Let me just mention a few in the U.S. We are working on tools to help us figure out the SKUs that should be produced at each site. That would result in better logistics costs. We're investing in predictive maintenance to improve equipment reliability and mechanical efficiency. We are working on lightweighting as well. Some of these projects are giving results throughout the year and some will come in the future. The most important one of those is we're expanding and improving our production facilities in Fort Worth, Texas. And that will result in supply-chain efficiencies. It also will enable growth. It's a significant investment in the next three years. We're going to bring into operation three new production lines. That's replacement and incremental. We're going to expand warehouses and process automation and that certainly reduces our production cost throughout the system.

So, we are engaging in a number of projects that will help us to navigate this competitive environment and sustain our margins as we move forward.

**Alejandro Fuchs:** Very clear. Thank you, Arturo.

**Arturo Gutierrez:** Thank you, Alejandro.

**Operator:** Thank you. And we'll take our next question from Felipe Ucros with Scotiabank. Your line is open.

**Felipe Ucros:** Thanks, operator. Good morning, Arturo, Emilio and team. Thanks for the space. Perhaps one on distribution agreements. So congrats on formally adding Pisco to the portfolio in Peru. I was wondering if you could talk about that experience, perhaps the data that you saw on the pilots, which eventually led you to sign the formal agreement. You talked a little bit about the results that you've had on ginger ale from that. But maybe also if you could give us some details about whether the agreement is exclusive or whether you expect to add other brands or other spirits categories as you show good performance in this distribution.

And then probably the same for Argentina, maybe not exactly the same drivers in Argentina with the deals you signed, but you also signed a couple of deals there. So congrats on that and any details would be great. Thank you.

**Arturo Gutierrez:** Thank you, Felipe. With respect to this multi-category initiative that we've been working on, this is basically, again, the premise here is that we are leveraging our distribution capabilities based on two developments that are fairly recent. First, our new agreement with the Coca-Cola Company that was executed about two years ago. And second is as we deploy new technologies, we're able to manage the complexity of a broader portfolio much better in the marketplace.

So with that, as you said, we started some pilot tests with different categories. So we are basically exploring three categories for distribution agreements, which is beer, spirits and groceries. And we've been doing this in all of our Latin American markets and we believe these categories complement our core portfolio very well.

So we currently have tracked revenues in the traditional trade and the territories where we are operating those categories. And this is about -- it's about 2% of revenues where we have the penetration of those categories. But we still find a lot of opportunity to increase our coverage in the routes that we are presenting this option to our customers. But what we've noticed and I think what's very important and that's maybe the starting point is the effect it has on the core business because we had a -- historically this paradigm of, will this distract our frontline from focusing on the core categories of our business. But basically, the customers buying these new categories are actually buying more of our core products, significantly more, I would say, let's say, around 6% growth gap is what we track. So it also helps in customer satisfaction. Our net promoter score, which we've also measured, is improving. And also the increase of the use of our digital platform in those customers as they expand also the portfolio of products they purchase from us. The increased time in the digital platform also increases and the number of users. So we also have the opportunity to have cross-category activations to create connections with those products that drive incremental volume. That's why we believe this basically increases loyalty with our customers, which is what our business is all about.

With respect to exclusivity, we are analyzing potential partners aligned with our capabilities. We have not provided exclusivity to our partners. We're actually discussing longer-term relationships with all of them - with brewers where I think it would be natural that we need a partner with a single-brand or a single company. But then we have in groceries, a number of different suppliers and then in the case of spirits, we also think there are opportunities in the different categories. So this is something that it's still expanding. We have our own aspiration, but it's going to be evolving and we believe in the next few years, very favorably, in all of our countries.

In Argentina, it's particularly important because as you know, we've had distribution of beer before very successfully. And now we are replacing that with both beer and spirits. And actually, we're also selling dairy products and snacks in those routes as well.

So again, this is something that is complementing our core and strengthening our core, which is the most important part of that initiative.

**Felipe Ucros:** No, very clear Arturo, thanks for the color. Maybe if I could just do a follow-up on Argentina. Do you believe you're close to the point with all these new agreements that you have signed to kind of close the gap that CCU left behind? Or is there more to do before you can sort of do like a full replacement on the volume side? Thank you.

**Arturo Gutierrez:** Well, Argentina, we all know we have been facing a very adverse economic environment, a very adverse environment in general, the end of '23, the first-half of '24, I think it was the most challenging situation we've seen consumption in the industry and the consumer goods industry declined significantly. But now we're looking at a much better outlook. We did decline volume 13% in the quarter, but September looked much better than the third quarter as a whole. So we are optimistic that the fourth quarter has a much better outlook.

We expect to continue closing that gap and mostly we'll be protecting margins and profitability. If you look at what we have been doing, it's focusing on returnables as part of our strategy, on the universal bottle as part of our returnable packaging strategy, and we've expanded our stills category introducing new products. So there's opportunity to capture market-share as well.

And we are also deploying the digital and analytical capabilities - similar playbook to what we have in in the rest of Latin America: service models, suggested order algorithms, and all those capabilities are being deployed here. So we're optimistic that the gap is being closed. It's been obviously a very difficult year, but the trend is certainly improving.

**Felipe Ucros:** Fantastic. Thanks so much for the color.

**Arturo Gutierrez:** Thank you, Felipe.

**Operator:** And we'll take our next question from Ben Theurer of Barclays.

**Ben Theurer:** Fantastic. I wanted to just dig a little bit deeper into some of the initiatives and the benefits you're seeing from it. I wanted to understand, like in terms of like a broader rollout, what are the things that you need to see or what are the things that you need to accommodate with your current pilot projects as you want to it this way, in order to sign more formal agreements? And what are like- kind of like the -- maybe a few steps that you can share where things are better like the Net Promoter score or things you've highlighted. How sustainable do you think that is as you kind of expand the product portfolio beyond the Coca-Cola beverages and have a little bit of these third-party distribution things on the truck?

**Arturo Gutierrez:** Yes, Ben. Well, again, this is part of our overall strategy as we have been deploying new technologies in our processes, especially in our go-to-market model. And this has brought these new opportunities. It's not only distributing other categories. It's also opportunities in services to the stores through our platform. And now we're exploring fintech services and also the use of data that we collect, etc. So this is part of a new ecosystem that we're building in the traditional trade in Latin America.

So I think what technology has brought is the opportunity to manage complexity better and that presents, again, the chance to have a wider portfolio of products that we didn't have before. And these are products that are part of the Coca-Cola branded products as well. If you think about alcoholic ready-to-drink beverages, this is also an expansion that was very hard in the past and a complexity that was more difficult to manage. And those are things that we are doing more effectively now as we again evolve our go-to-market models.

So speaking about multi-category, again, the premise here has always been the loyalty with the customer, making the traditional trade more competitive and strengthening those customers these are the pain points that they present to us many times. They do want to have a better management of the stores with technology, but also they want to have a better assortment of categories, similar to what we do with beverages because we're not really a distributor. If you look at what we do, we bring value and we create shared value with the store through training, through a coolers, through suggested pricing, etc. So this is similar to what we're trying to do right now. So to your point, I think the evolution here is to identify the optimal portfolio of many of these products.

Think about groceries, we're now delivering a basic assortment of what we believe makes sense for those stores and also what is for us - makes sense from the volume perspective and the capacity to distribute and deliver and based also on our improved order taking for the store. And that continues to evolve. And also our negotiations with those vendors continue to evolve because we certainly know that we bring significant value to that equation.

So I think it's a matter of expanding our reach. If you look at the routes where we are selling those products, it's still probably around 30% of the customers that we reach through those routes. So we need to expand that and as we evolve our service models, we're going to be able to achieve that. And also obviously, we're going to focus on profitability of those SKUs. And at the end, this is a virtual cycle of increasing loyalty and our Net Promoter score with the customer, which is going to reinforce our ecosystem. And again, it connects to other things that we can do with our core or with services that we provide. So we truly believe this is an opportunity that connects very effectively with our core and so that's why we are going to pursue in all of Latin America with the initiative.

**Ben Theurer:** Okay. Perfect. And then one, just a quick follow-up. I mean, leverage is like really low - below 0.5 times now. And I mean, despite having somewhat elevated capex versus what would be of our run-rate history, how should we think about like this excess cash? What are the opportunities? What are you looking at?

**Arturo Gutierrez:** Yeah. Well, we've talked about this before. I will turn it over to Emilio to elaborate. But our priorities will, I would say, remain consistent with our historical track record in terms of capex and dividends. So I will let Emilio comment on that.

**Emilio Marcos:** Thank you, Arturo. Thank you for the question. Yes, as Arturo just mentioned, our priorities remain the same. Capex this year will be higher than the historical rate of 5% to 6%. This year we're planning to invest 7% and maybe next year with the investment that Arturo already mentioned.

And the second one is dividend. As you know, we have a policy to distribute at least 30% of our retained earnings.

And the third one is M&A. We are constantly looking for opportunities in U.S. and LatAm. But in the absence of M&A in the past years, we've been paying extraordinary dividends. We just did a payment of extraordinary dividends last August. We paid MXN2.50 per share. So the total dividend this year is MXN6.30 per share with a payout ratio of 62% and a dividend yield of 3.4%.

So that's been the strategy in the absence of M&A. And again, we are very active on looking for opportunities that create value.

**Ben Theurer:** Perfect. Thank you.

**Arturo Gutierrez:** Thank you, Ben.

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

**Rodrigo Alcantara:** Hi, thanks for taking my question, Arturo, Emilio. First one for Arturo. Arturo, if you can perhaps comment a bit more on the performance we have seen at Monster in the U.S., like you mentioned during the press release a 7% volume growth. Also if I recall in the last quarter, you mentioned that you reported the highest among the bottlers of the brand, right? So just curious to hear your thoughts on what do you attribute to this performance and how the relevance that you see for this brand to contribute to your portfolio?

And also, I mean, comparing the performance of Monster versus the rest of the stills category, it doesn't look like it moved a lot of middle, right? So just curious on what happened there that mitigated or offset the performance of Monster within stills in the U.S. That would be my question for you, Arturo, and I have a very, very quick one for Emilio after that just on the balance sheet. Thank you very much.

**Arturo Gutierrez:** Thank you, Rodrigo. Well, yeah, in the U.S. market for us, well we all know it's certainly different in its configuration and dynamics to what we face in Latin America. So stills categories and, or I would say, the categories that are different to the core, which are where we include Monster, are much more important in our portfolio. So if you look at the mix of Monster in the U.S., in volumes, it's around maybe 6%, I would say, approx. and that means in revenues, it's going to be more because of the premium pricing.

And so growth in those categories, it's important because of the mix and also because of how the market has been evolving. So we see stills as an important source of the growth in the U.S. and maybe some -- even of the subcategories where we see more of this granular growth phenomenon that we're going to see in every market. And that certainly adds complexity, but I believe it does work in our favor. So in our performance in the quarter, well, our stills categories grew in the quarter. We had a volume decline, but it's basically explained by the performance in in water. But in stills we grew 0.8%. Monster had a better performance than that. We still are performing better than I would say the average. We have a great partnership with Monster and we continue to find that as a tremendous opportunity and as a source of growth for our market.

Having said that, we still believe in the U.S. there is a big runway for growing sparkling categories. The Coca-Cola brand just to mentioned in the U.S. grew 1.5% in the quarter, which for us is very relevant in a quarter that we had some adversity from not favorable weather, in general.

But again, these categories, Monster particularly is providing growth, same as a Topo Chico, for example, continues to grow in the U.S. 10% and that is, again, where we have the sources of growth in that market.

**Rodrigo Alcantara:** I see. Thanks for your thoughts, Arturo. And the other one very quickly for Emilio. I mean just looking here, I mean, it looks like the meat that the consensus had on your earnings pretty much came from the financial expenses, right, that I mean, as having one third, a bit less of your EBIT in the U.S. I mean, a depreciation of the Mexican peso in theory should help you, right, given your cash balance, but we didn't see that. Just curious, I mean, if you can help me understand what happened here, Emilio, and how do you think about your cash balance position as we move through the year end? Thank you very much.

**Emilio Marcos:** Well, the results in the first nine months of the year, we have this year a positive result on exchange gain since depreciation of the peso. And last year, we have, as you know, appreciation of the peso, we have some losses because we have a high cash in U.S. dollars. So that was the main effect on this regard since last year we have like around MXN700 million pesos in exchange loss. And this year, we have like MXN200 million pesos in gain. So that's mainly the difference on this concept. So that's basically because of our position in U.S. dollar in Mexico that's making the difference.

And regarding the hedges on FX…you asked about the hedges also in Mexico?

**Rodrigo Alcantara:** Yes, please.

**Emilio Marcos:** Yes. Well, this year we hedged 100% of our needs as we have mentioned, and we already hedged 80% of our needs for next year at a lower exchange rate than the current level. So we are very well-positioned there for next year. And also this year, our hedges are lower than 2023 levels. So we're good on that with a positive effect in Mexico. And also in Peru, we hedged also already 80% of our needs of our FX - of dollar needs at a lower exchange rate than 2024 for 2025.

**Rodrigo Alcantara:** Awesome, thank you.

**Emilio Marcos:** Again, leverage ratio is very low. So we, as I mentioned previously, we are looking for opportunities. So we have a strong balance sheet in order to do a very good investment there.

**Arturo Gutierrez:** Thank you, Rodrigo.

**Operator:** And we'll take our next question from Antonio Hernandez with Actinver.

**Antonio Hernandez:** Hi, good morning. Thanks for taking my question and congrats on your results. Quite impressive regarding EBITDA margin in the U.S. and still believe that you have plenty of opportunities there. Where do you see potential normalized margins there? Do you have any specific targets? Thanks.

**Arturo Gutierrez:** Hi, Antonio, thanks for your question. Well, in the U.S., as I said, we're very satisfied with the margins that we have reached. If you look at the history of our operation in the U.S. now for what, 7.5 years, our margin has been continuously improving. As I mentioned, it's a combination of the original synergies of the project, and then our focus in revenue management, and better mix of products, on also promotion management, and also the efficiency projects that continue even after the original synergy plan that we had, and our management of raw materials in the strategy, and hedging.

So we are confident on our ability to sustain margins going forward. Especially if we think about our pricing strategy, which continues to be to price at least in line with inflation for the future and that's very important. As you saw, we increased price more than 7% in the third quarter and this is driven by the strategy and the mix effect, our focus on the high-profit SKUs is very important. And also the rollout of our trade promotion tool, which has reduced unproductive promo spend by 25%, which is pretty significant.

We've been again focusing on a very effective price pack architecture on growing transactions, growing immediate consumption and that also contributes to a more profitable operation. So in terms of raw materials, we've had a good environment for PET and aluminum, and we've been very effective in hedging our needs for fructose for this year and we expect '25 to be pretty much in line with inflation in that input.

So again, we are optimistic. There's still a lot to do in our facilities, in our supply chain and more efficiency coming. So that's where we are confident on our ability to maintain a very profitable operation in the U.S.

**Antonio Hernandez:** OK. Thanks a lot. Have a great day.

**Arturo Gutierrez:** Thanks, Antonio.

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

**Carlos Laboy:** Yes, thank you. Good afternoon, everyone. Arturo, I was hoping you could expand a little bit on how your digital needs in the U.S. might be different from your digital needs in Mexico or in Latin America? And how you're going about to meet those needs?

**Arturo Gutierrez:** Yes, Carlos. Thank you. Thanks for your questions. Well, the big difference, if you look at our approach to digital, is that there is a number of projects in Latin America that are focusing in the traditional trade and strengthening our relationship in that particular channel. And obviously, some of those very specific initiatives will not be applicable to the U.S. But if you look at the basic transformation initiative that we have, I would say the building blocks are very similar. We actually have the digital nest operating here in Monterrey, but this unit is providing services to Latin America and to the U.S. operations as well.

And let me mention a few things that we're focusing in the U.S. One is the myCoke platform in the U.S. and that would be maybe the equivalent of what we're doing in Latin America with TUALI, which was recently announced. And the idea here is the same, to kind of deepen the connection with customers, improving our relationship and mostly customizing our communications with customers. It enables targeted promotions, it simplifies order taking, it resolves issues, it manages requests, it provides flexibility to place orders anytime. So that's similar to what we're doing in Mexico, obviously, with a different channel. And for '25, we expect more than 20,000 users actively engaging through the B2B platform that we have in the U.S. And we're also piloting new features there like the easy order, which is also similar to what we're doing for the traditional channel and to deliver a smooth ordering experience.

Then we also have solutions to drive profitability, also our launch from our digital nest centralized our revenue growth management tools are leveraged on digital technologies. And these are also similar, obviously adapted to every particular market, but this is something that we have been deploying in the U.S. I mentioned our trade promotion optimizer, this has enabled us to be more precise in our expenditures, in our promotions and reducing unprofitable promotions.

The suggested order algorithm also applies to the U.S., again, it's based on the analytics and it's been adapted in the U.S. actually to the modern trade as a new capability, and it basically works by recommending a base order to frontline associates and it's been deployed in customers like Dollar General. So again, it's a great example of what we've been doing in the U.S. for a number of years. We believe that the building blocks are similar, but it's not a template that we bring from Latin America, either in digital or in any other process. It's how we adapt it to that market, but based on developments that we are generating in a centralized way.

**Carlos Laboy:** Thank you.

**Arturo Gutierrez:** Thank you, Carlos.

**Operator:** Thank you. And we'll take our next question from Fernando Olvera with Bank of America. Your line is open.

**Fernando Olvera:** Hi, good morning, all and thanks for taking my question. Just a quick one about Mexico. According to recent news, the sale of sweetened beverages will be prohibited in schools starting in March of next year. So can you give us your thoughts on this and what could be the potential impact on sales? Thank you.

**Arturo Gutierrez:** Yes, Fernando, thank you. Good talking to you. Yeah, we read that in the news. Really, in Mexico, as part of the Coca-Cola system, not only us -- not only us as a company, but everyone in the system in Mexico, since a long time ago, we have been implementing self-regulation based on the marketing policy of The Coca-Cola Company. So we basically sell only water in most of the schools and education centers and we restrict advertising activities to kids under 13. This has been going on, I think since 2015 basically.

So we continue to pursue our strategy to offer beverage options for everyone. And continue to have a portfolio with all the options in low and no sugar products in soft drinks and all the other categories that we manage. And we work very closely with the authorities to analyze regulation and contribute, but the impact is not significant, again, because we've been self-regulating for quite some time.

**Fernando Olvera:** Great. Thank you so much.

**Arturo Gutierrez:** Thank you, Fernando.

**Operator:** We'll take our next question from Renata Cabral with Citigroup.

**Renata Cabral:** Hi, everyone. Thank you so much for taking my question. My question is a follow-up regarding digital initiatives in the U.S. I wonder if you could qualitatively rank the base stage that Arca is today into digital initiatives versus other bottlers in the U.S. My question is more related if the digital initiatives that you are developing now could be a competitive advantage when acquiring -- potentially acquiring a bottler in the U.S.? Thank you.

**Arturo Gutierrez:** Thank you, Renata. Yes, the system in general has been pursuing these types of initiatives, I would say, around the world, not only in the U.S. and we've been very open to sharing good practices because we also learned from other bottlers and we've incorporated practices from other bottlers. And The Coca-Cola Company has been coordinating and taking the lead also in the sharing of best practices and even on developing some of the tools that then are being shared across the system.

So I would mention two things. First, when you adopt practices, it's not something that's automatic. You have to incorporate data to adapt it to your market. So it takes a lot of effort to incorporate that idea into every market. And that's why sometimes the deployment takes time. But also, I think there is an element of scale. Many times for the larger bottlers, it would be easier to have the scale to develop some of these new technologies in their system because it requires a specific effort. Like in our case, we have our digital nest here in Monterrey, where we have 180 people working only on the developing of our digital tools and digital technology.

So that's -- I would say that is harder for a medium or smaller-sized bottler. So I think it presents the opportunities to partner throughout the Coca-Cola system, I would believe in the future. And I think it's an example, again, of what we've said over the years that the business of a Coke bottler has more economies of scale than maybe it had 20, 30 years ago. And again, these new capabilities that require, I would say, more sophisticated approach are a great example of how scale is becoming more relevant across the system.

**Renata Cabral:** That's awesome. Thanks so much for the color.

**Arturo Gutierrez:** Thank you, Renata.

**Operator:** And we'll take our next question from Thiago Bortoluci with Goldman Sachs.

**Thiago Bortoluci:** Hey, Arturo, Emilio, good morning, everyone. Thanks for taking our questions. I have two follow-ups somehow related. The first one in Mexico, right, you posted a very good EBITDA margin expanding some 50 basis-points, which is based from the general expectation of keeping margins stable, right? Is it more into how you're seeing consumption trend into the fourth quarter, but is there a scenario where you are considering eventually reinvesting part of these margins to reignite consumption? This is the first one.

And related to this, I appreciate the color you give on the hedges for the remainder of the year and next year. If we could analyze this sequentially, right, would you say the hedges you have for the fourth quarter are sequentially better than the ones you had for the third quarter in Mexico? Those are the questions. Thank you very much.

**Arturo Gutierrez:** Yeah, I'll turn it over to the question hedges to Emilio. Let me talk about Mexico first. And again, the situation we've seen in Mexico is a decline in the quarter, but it's clearly explained with what we've been cycling a very strong growth, not only in '23, but also in 2022 and not very favorable weather across our territories. So we're facing actually the highest-growing period from the previous year. And even under those circumstances, we've been able to sustain our margins through a number of activities and initiatives that we're doing in our markets.

So we believe that going forward, we're going to have a better volume scenario in the fourth quarter, as I mentioned also. We're going to be focusing in the management of our key inputs as we had before in Mexico. PET has been favorable. Also, aluminum, although we don't use as much as in the U.S., but our requirements were also mostly hedged and they are also hedged to a great extent for 2025. Sugar has been above inflation throughout the year and there would be some price hikes. But in the case of fructose, we also have hedged our needs very favorably for '25.

Same thing as FX hedges, which Emilio mentioned before. So we look at our margins going forward again with optimism. And even when our volume was impacted, we were able to sustain margins. If you look at margins in Mexico are among the highest and on a consolidated basis, the highest in eight years in the quarter that was very, very adverse in many aspects. So that's why we remain again very optimistic about profitability in the future.

So I will turn it over to Emilio for your second part of the question with respect to hedges.

**Emilio Marcos:** Yes. Thank you, Arturo. Thank you, for your question. As Arturo mentioned, we're very confident to maintain the profitability trends in Mexico. So our hedges in Mexico, as Arturo already mentioned, we have for 2024, hedged already 80% of our aluminum needs in Mexico and also in U.S. this year. And talking about sweeteners, we hedged 100% of our needs in Peru for sugar needs below our 2023 prices. And talking about fructose in Mexico, we hedged 100% also of our needs are in line with 2023 prices for this year. And also in U.S., we hedged 85% of our needs for this year, in line with 2023 prices. And in Mexico also we hedged 100% of our U.S. dollar needs of below 2023 prices.

That's for 2024 and as we mentioned already, we started hedging for 2025 in Mexico and U.S. and some in Peru. In Mexico, for example, we hedged already some of our needs for high-fructose, we hedged 50% of our needs of high-fructose and 60% of our aluminum needs for next year. And 80% of our hedges are also covering the needs of our U.S. dollar in Mexico at a level below 2024. So we are very well-positioned on the hedges for 2025 and also for the rest of the year of '24.

**Arturo Gutierrez:** And very importantly, Thiago, we are confident that we're going to finish the year in terms of top line in Mexico in line with our guidance.

**Thiago Bortoluci:** Great. Thanks, Arturo. And then if I may follow-up on that quick one. Would you say or do you see any difference in the average prices realized for us year-to-date in Mexico versus what you have hedged for the remainder of the year?

**Arturo Gutierrez:** Can you repeat your question, please, Thiago? It is about pricing in Mexico?

**Thiago Bortoluci:** Do you see any difference? Can you hear me?

**Arturo Gutierrez:** We cannot hear you very well. So can you repeat your question?

**Thiago Bortoluci:** Sorry. The question is, do you see any material difference in the cost realized year-to-date versus what you have hedged for the fourth quarter?

**Arturo Gutierrez:** Difference between margins, you say? Your question is about margins year-to-date versus going forward?

**Thiago Bortoluci:** It's on cost hedges.

**Emilio Marcos:** Well, talking about hedges, we have the same level of pricing for the whole year. But what we have positive for the fourth quarter is sugar prices. Sugar prices starting to stabilize and even going lower than third quarter, that's in Mexico. But hedges are at the same level for the full-year -- for the whole year.

**Thiago Bortoluci:** That's great. Thank you so much both.

**Arturo Gutierrez:** Thank you, Thiago.

**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, everyone. We really appreciate your time today and your ongoing commitment to our company.

And as always, our Investor Relations team is available to address any follow-up questions you may have. Thank you and have a great day.

**Operator:** Thank you very much, Mr. Gutierrez. Again, ladies and gentlemen, that does conclude today's conference call. You may now disconnect.

**-END-**