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Arca Continental
Second Quarter 2025 Earnings 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 and first half of 2025. Their earnings release went out this morning and it's available on the company website at arcacontal.com in the Investor Relations section.

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

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

Arturo Gutierrez: Thank you, Melanie. Many thanks to everyone for being with us this morning. We appreciate the opportunity to share an update on our second quarter and first-half 2025 results.

Let me begin by saying that our strategic initiatives and solid execution have enabled us to deliver a solid financial performance and recover value share, even in the face of a softer consumer sentiment in some of our markets.

The first half of the year has brought a particularly complex landscape. The macroeconomic backdrop remains uncertain, shaped by evolving trade dynamics and ongoing cost volatility across key input categories.

Nonetheless, our business has remained resilient. We responded swiftly to these challenges—protecting margins, investing in high-potential growth platforms and commercial capabilities, strengthening our manufacturing footprint and supply chain, and effectively executing the levers within our control.

Moving now to our consolidated results halfway through the year. Total consolidated volume declined 2.7% in the quarter, and 2.9% year-to-date. Despite softer volumes, total consolidated revenue increased 8% in

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the quarter, driven by effective pricing strategies and favorable FX effects. Year-to-date, consolidated revenue increased 10.1%.

Consolidated EBITDA rose 8.1% in the quarter and 9% year-to-date, with corresponding margins of 20.7% and 19.8%, respectively.

This strong EBITDA performance was driven by solid contributions from our U.S. operations and further supported by the ongoing recovery and improving momentum across our markets in South America.

Remarkably, we have delivered EBITDA growth in every second quarter over the past 15 years.

Let me now walk you through a brief overview of our performance across our five markets, beginning with Mexico.

During the quarter, unit case volume— not including jug water—declined 4.8%, as we cycled three consecutive years of strong growth in the same period.

On a year-to-date basis, unit case volume— not including jug water—declined 4.8%.

Importantly, the second quarter of last year marked the highest volume performance in any year in Mexico since our merger in 2011, creating a particularly challenging comparison base.

Volume performance in the quarter was partially impacted by unseasonably adverse weather conditions, including below-average temperatures and persistent heavy rainfall across most of our territories, which weighed on overall consumer demand.

This impact was partially offset by a better performance in still beverage categories — particularly energy drinks, tea, and fruit beverages, driven by continued momentum in the modern trade channel, mainly in supermarkets.

Coca-Cola Zero delivered sequential double-digit growth, supported by the successful launch of the new 450 milliliter format and a continued expansion across our territories.

Total net sales in Mexico were flat, both in the quarter and year-to-date. Average price per case in the quarter - not including jug water - rose 5.1%.

EBITDA declined in the quarter by 3% for a margin of 24.6%. On a year-to-date basis, EBITDA decreased 4.3% with a margin of 22.9%.

Importantly, this quarter we announced the opening of our largest Distribution Center in Mexico. Located in Tonalá, Jalisco, this new facility will serve over 40 thousand customers and significantly enhance our operational footprint in Guadalajara's metropolitan area.

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Turning to our beverage operations in South America, total volume increased by 2.2% in the second quarter, reflecting sequential volume improvement in Peru and Ecuador, along with a strong performance in Argentina.

Total revenue for the quarter grew 11.8%, while EBITDA increased 29.2%, with a margin of 17.3%.

Year-to-date, revenue was up 18.8% and EBITDA rose 33%, representing a margin of 18.7%.

South America's economic landscape presents a mixed but improving outlook. Collectively, the region is showing renewed momentum, and overall consumption shows signs of recovery, although disparities prevail.

In Peru, total volume grew 1.8%, supported by strong growth in still beverages and water categories, up 3.7% and 9.3%, respectively.

This performance was led by a solid 30.4% expansion in the flavored water segment, with sports and energy drinks also contributing, up 10.5% and 5.1%, respectively.

Volume recovery continued at a steady pace across channels, with supermarkets leading the way, up 5.9%, driven by our price-pack and cross-category strategies, and the momentum from high-impact marketing campaigns like Share a Coke and Inca Kola's 90th anniversary.

Moving over to Ecuador, the environment remained difficult, with rising security concerns disrupting consumer mobility and weighing on shopping behavior. Nonetheless, we are beginning to see encouraging signs that the economic contraction is starting to ease.

In this context, total volume declined 3.1% in the quarter. However, we are seeing early signs of a sequential moderation in the rate of volume decline, supported by our affordability strategy and continued investments in returnable bottles.

Coca-Cola Zero stood out with 6% growth, driven by the strong performance of the 1.6-liter PET format.

We gained value share in NARTD beverages, supported by growth in the cola segment. The mix of returnable packages grew by 0.5 percentage points this quarter, a positive step in driving value and maintaining consumer relevance.

Our beverage business in Argentina delivered another quarter of sequential volume improvement, up 11.6%.

Nearly all categories contributed to this strong performance, reflecting solid consumer demand across our portfolio.

Sparkling beverages increased 11.4%, with brand Coca-Cola delivering a solid performance, up 13.5% and flavors up 3.4%.

Still beverages grew a strong 32.2%, led by Monster in energy drinks, Aquarius in flavored water, and Ades in the soy-based beverage segment.

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We achieved value share gains in NARTD beverages, driven by strong performances across channels and our initiatives to promote affordability.

This quarter we acquired a second sugar mill in Argentina, expanding production capacity and strengthening our vertical integration in cane sugar.

We are pleased with our performance and remain confident that improving economic conditions will support our continued growth in the second half of the year.

Moving to our beverage operation in the United States, Coca-Cola Southwest Beverages closed the second quarter with positive forward momentum, delivering sound financial results and a strong operating performance.

These outstanding results were driven by our solid point-of-sale execution, ongoing refinement of our commercial strategies, effective management of our price/pack architecture and disciplined cost controls.

Net revenues rose 3.9% in the quarter, and 2.2% year-to-date. The average price per case increased 4.5% in the quarter.

As a result, we achieved a 2.9% improvement in true rate and a 1.6% uplift in mix rate.

Volume for the quarter declined slightly 0.6%. However, excluding the change in the distribution model of the Dasani case packs deployed last year, underlying volume grew 0.2%. This effect will be fully cycled in the next quarter.

Key performances included Coca-Cola Zero, up 8%, and Stills portfolio growing 2%, driven by Monster, Fairlife and Body Armor.

We continue to focus on higher profit-per-case packages, such as 10-pack SSD Mini cans, Smartwater and Vitaminwater, which increased 22%, 11% and 9.3%, respectively.

Our mix shifted towards single-serve packages, increasing by 0.3 percentage points. Our low-calorie portfolio grew 7.3%, driven by Coke Zero, Diet Coke and Sprite Zero.

EBITDA increased 9.1% in the quarter, representing a margin of 17.8%. Year-to-date EBITDA grew 6.7% with a margin of 17%.

Notably, this was our most profitable second quarter since taking over the U.S. beverage franchise in Texas and Oklahoma and it also marks the 29th consecutive quarter of EBITDA growth.

To wrap up the review of our operations, our Food and Snacks division continued to deliver solid results with mid-single-digit sales growth.

Performance was led by Inalecsa in Ecuador, supported by a compelling price-value proposition, disciplined execution of productivity initiatives and sharp focus on consumer-driven innovation.

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And now, to close, let me provide a brief update on the progress of our sustainability agenda.

This quarter, we achieved important milestones in our plastics collection and recycling systems.

In Ecuador, we entered into a partnership with the National Recyclers Network to support financial inclusion through targeted training and capacity-building efforts.

And in Mexico, we expanded our PET collection center in San Luis Potosí —enhancing our infrastructure to recover and process over 380 million PET bottles annually.

Moreover, we continued strengthening our Sustainability risk management, achieving our most significant improvement since 2019 in the latest Sustainalytics Morningstar assessment.

We are pleased to share that we are now ranked among the Top 10 best-rated companies in the beverages industry, climbing five positions year over year.

Our Sustainability risk score outperformed both the industry and subindustry averages, earning us the highest risk management rating.

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

Emilio Marcos: Thank you, Arturo. Good morning, everyone, and thank you for joining our call to review our performance for the second quarter of 2025.

As Arturo mentioned, the second quarter remained challenging, with macroeconomic headwinds and adverse weather conditions impacting volume performance, particularly in Mexico.

Despite these pressures, we delivered high single-digit growth in both revenue and EBITDA. It is important to mention that we successfully protected our EBITDA margin by leveraging our Revenue Growth Management capabilities and maintaining a disciplined approach to expense control.

Let me offer further insight into our financial results:

In the second quarter, consolidated revenues rose 8% reaching $63.4 billion pesos. First half revenues grew 10.1% to $120.5 billion pesos mainly driven by our effective pricing strategies and exposure to the US dollar. On a currency-neutral basis, revenue rose 2.7% in the quarter and 2.5% year-to-date.

During the quarter, SG&A expenses increased 7.6% reaching $19.3 billion pesos. Despite the contraction in volume, our continued commitment on operational discipline and efficiency resulted in a 20-basis point improvement in the SG&A-to-Sales ratio to 30.4%. On a currency neutral basis SG&A grew 2.4%.

Consolidated EBITDA grew 8.1% in the quarter to $13.2 billion pesos, while we protected our EBITDA margin at 20.7%, reflecting the improvement in the SG&A-to-Sales ratio. For the first half of the year, EBITDA increased 9% to $23.8 billion pesos, with a slight 10-basis point dilution in the EBITDA margin, which stood at 19.8%. On a currency-neutral basis, EBITDA grew 2.9% in the quarter and 2% in the accumulated period.

Net income for the quarter increased 1.2%, reaching $5.5 billion pesos, resulting in 60-basis point contraction in net profit margin. For the year-to-date period, net income totaled $9.6 billion pesos, marking a 4.9% increase compared to the previous year, with a 40-basis point contraction in net profit margin. The margin dilution was driven by the comprehensive financing result, given the effect of our US dollar cash position in Mexico.

Now, moving onto the balance sheet. As of June, cash and equivalents totaled $26.6 billion pesos, while total debt stood at $57.4 billion pesos, resulting in a net debt to EBITDA ratio of 0.6 times.

On June, we distributed an extraordinary dividend of $3.50 pesos per share, combined with the ordinary dividend of $4.12 pesos paid in April, resulting in a total distribution of $7.62 pesos per share. This reflects a payout ratio of 66% of retained earnings and a dividend yield of 3.8%.

As of June, total CAPEX reached $8.3 billion pesos, representing 6.9% of sales. These investments were mainly allocated toward expanding production capacity and enhancing our distribution and commercial capabilities, in line with our long-term strategic plan.

Looking forward, while volatility is likely to continue, we are confident in the resilience of our business and capacity to face market challenges effectively. We will continue to leverage our core strengths and maintain a disciplined approach to expense management.

That concludes my review. And now, I'll turn it back to Arturo. Please, Arturo.

Arturo Gutierrez: Thank you, Emilio.

Before we wrap up, I want to thank our teams across the organization for their continued focus, resilience, and commitment to execution during what has been a complex and demanding first half of the year.

Despite ongoing headwinds, we are seeing encouraging progress across multiple areas of the business, even as the broader context remains challenging.

Importantly, we remain firmly committed to delivering the full-year guidance we shared at the start of the year. Our strong fundamentals, disciplined approach, and continued investments give us confidence in our outlook.

Throughout our long history, we have successfully navigated challenging environments by staying focused on our long-term strategy and continuing to invest—even in downturns. This consistent, disciplined approach has helped us emerge stronger time and again.

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Moreover, we see meaningful potential to unlock greater operating leverage. By capitalizing on our capabilities and disciplined cost management, we aim to sustain healthy profitability going forward.

Our partnership of 99 years with The Coca-Cola Company continues to be a key driver of shared value creation. Our aligned strategies are delivering sustainable and profitable growth, while opening up promising new opportunities across our markets.

Looking ahead to the second half of the year, we anticipate a more favorable macroeconomic environment and a gradual improvement in consumer sentiment.

Combined with strengthened production capabilities, end-to-end supply chain improvements, advanced digital tools, and focused strategic execution, we are well-positioned to build momentum and continue delivering strong results.

Our growth story remains compelling, and we are well-equipped to continue creating value for all stakeholders.

And with that, we'll now open the floor for questions. Operator, please go ahead.

Operator: Thank you. And at this time, if you would like to ask a question, please press the star key, followed by the one key, on your touchtone phone now. We will pause for just a moment to allow everyone the opportunity to signal for questions.

We will take our first question from Ulises Argote with Santander. Please go ahead, your line is open.

Ulises Argote, Santander: Hey, Arturo and Emilio. Thanks for the remarks and for the space for questions. I have a couple here on my side. So first, one there for Arturo. I mean, you just reiterated the guidance for the year. So double-clicking a bit on that given the current operating dynamics and the sequentially lower pressure that we saw in margins for Mexico. Do you still see a space to close the year with flattish margins for full year '25, specifically thinking on Mexico? And then I have another one for Emilio.

Arturo Gutierrez: Thank you, Ulises, and good morning. Well, yeah, the situation for margins in Mexico was mostly impacted by volume performance as we saw. And so we are very confident to recover profitability throughout the year as volumes improve, which we are expecting that to happen actually in the third quarter.

On our side, we are continuing on our cost-control initiatives, which are very important, and our pricing strategy, which is consistent with what we've said before. And also on the cost side, we are leveraging our hedging strategies for main raw materials. So the outlook going-forward is positive. Again, this is dependent on the recovery of volumes, which we have a better perspective for third quarter. We have obviously not as difficult comps as we had for the second quarter of the year, which was a big factor also for the decline that we saw in the second quarter. And we're already seeing some improvement in the last few days. But our goal is always to protect the margin for the full year and that is what we are expecting.

Ulises Argote, Santander: That's super clear. Thanks so much for that, Arturo. And the question that I had for Emilio was more on the distribution there of dividends, right? So you already paid out the extraordinary one, so payout now closer to like that 66% that you were mentioning. So can we still expect any additional dividend if no M&A materializes throughout the next few months? Or would you say this extraordinary dividend basically already covers for that portion? Thank you.

Emilio Marcos: Hello, Ulises, good morning. Yes, as you know, we have already distributed two dividends, the ordinary dividends of MXN3.5 per share in April and then in June MXN4.12 per share. So we have distributed 67% of payout ratio. So it will depend on the decision of the Board to pay any additional dividends. So, in the lack of any M&A, they may approve an additional dividend in the remainder of the year.

Ulises Argote, Santander: Perfect. Super clear. Thank you very much, guys.

Arturo Gutierrez: Thank you, Ulises.

Operator: Thank you. Our next question comes from Thiago Bortoluci with Goldman Sachs. Please go ahead. Your line is open.

Thiago Bortoluci, Goldman Sachs: Yes. Hi, good morning, everyone. Arturo, Emilio, thank you very much for the presentation. Always a pleasure to talk to you guys. Congrats on the performance on the US, right, it's really remarkable. But having said that, I'd like to focus the conversation here first on Mexico, right? And the question we hear people asking and this includes ourselves, right, is from the pressure we saw year-to-date, how much of this is really structural and how much of this is related to comps, to weather, to the comps from the government incentives last year and so forth, so on, right? So to this point, Arturo, when you look to your performance by, you know, packaging, by channel, do you see any evidence as to say that the consumer is still relatively protected to the extent that is possible in this environment and that would make you confident that going forward, momentum should pick up and it will not just be driven by comps, but by solid fundamentals in the market? This is my number one question.

And then still related to this, how confident you are that Mexico eventually would support further pricing activity in the second half of the year? Those are the questions. Thank you very much.

Arturo Gutierrez: Yes, thank you, Thiago, and good morning. Well, in Mexico, if we analyze the second quarter, we identify several factors. I think you mentioned all of them. First, it's a tough comparison versus the previous year. If we remember May '24 was really a record-breaking month in terms of volume. And it was actually recycling a 12% growth versus 2023. So that made it very, very hard as a comp. And we had also very - really adverse weather in the second-half of the quarter. We had cooler temperatures. We had more than 51% above rainfall. And this is really not an excuse. It's just trying to find the explanation behind this. We also had a slower economy and reduced traffic. It's hard to break that down, but certainly we have identified - and the Coca-Cola Company has also helped us analyze performance - and I think weather was the biggest factor, nonetheless. But the other two did come into play.

We also had consumption patterns in '24 that were positively influenced by the pre-election period, if you remember. So we had all that going on and if we look at the channel performance that you were asking, our traditional channel declined 4.8%. It had a significant increase last year. Modern channel also declined very slightly - it was almost flat and it was cycling significant growth from last year. Store traffic remains under pressure, no doubt. If you break that down, supermarkets had a better performance than proximity convenience stores, and on-premise was down more than 5%. What that tells you is that certainly less traffic, it's probably a typical pattern of bad weather, people not going out less on-the-go consumption. So that would obviously going forward will regress to the mean and even out. So comps will work in our favor in the third quarter, maybe not in the fourth.

So we do see some slowdown, but the other factors were quite relevant. We don't see price as a factor. I mean, price elasticity in the second quarter. So going to the second part of your question, we're still looking at a year where price is going to be in line with inflation, that would be our goal. If you look at what we've done so far, in the second-quarter, true rate was up 4.9%, some carryover and an increase in the month of March. So, we're going to protect some of the packages that support our affordability strategy, mostly the returnable packages, but we will continue to leverage our tools to effectively increase prices. And also very importantly, our price - our promotional optimization tools, which have brought us significant efficiencies in the way we deploy discounts and promotions in the traditional trade. So that also is going to have an impact as it has so far. So that's what we are looking forward to sustain our profitability and margins, which I think considering the declining volume in the second quarter, you know, margins were protected to a great extent.

Thiago Bortoluci, Goldman Sachs: That's great, Arturo, very helpful. Thank you very much.

Arturo Gutierrez: Thank you, Thiago.

Operator: Thank you. We will move next with Benjamin Theurer with Barclays. Please go ahead. Your line is open.

Rahi Parikh, Barclays: Hi, this is Rahi on for Ben. Moving to a different note, maybe more color on the distribution center in Jalisco. How long will it take to ramp up to 100%? And maybe if you can give more color on the construction of the distribution centers in the US? Are you seeing any labor shortages? Any labor shortage issues there yet? Thanks so much.

Arturo Gutierrez: Thank you, Rahi. Good morning. And well, yes, our distribution center in Tonalá - the metropolitan area of Guadalajara - of course opened recently this year, actually. And this initiative jointly with many other projects that are either already completed or underway in Mexico, are going to contribute to be better prepared when we have a better market environment. What we see up to now and what are the indicators that we are following are fill rate to the market, which are improving. Unfortunately, the quarter was not great in terms of volume and demand. So that probably doesn't reflect as we wanted, but definitely it's going to be a factor going forward.

The support freight between plants has dropped also, which is an important indicator of efficiency, and our inventory policies - the compliance of those policies also has improved. So, we are reducing saturation in distribution centers. So those are the kind of metrics that will tell us that we are better prepared to meet the demand of the market, which honestly, in the last peak seasons in '24, '23, we had many opportunities in that regard.

In the US, in terms of labor, no, we've been pretty stable in terms of labor and staffing. So, we've been having some issues in the past, but that has stabilized this year. So it's actually not an issue really anymore. But our biggest project in the US is not yet in operation. That is going to open up next year in '27, we'll see most of the benefits. Currently we opened a distributor center in the city of Waco, Texas, but there are many other projects underway.

Rahi Parikh, Barclays: Awesome. Thank you. And then just on the profitability of the US, again, congratulations. What was the difference in strategy that you pushed this quarter to go for the more profitable packages? And are you implementing those in 3Q or was it just some kind of promotion this quarter? Maybe just more context on the continuing profitability in the US? Thank you so much.

Arturo Gutierrez: Yes. In the US, we have a solid playbook that has, you know, given us significant results in terms of execution. As you know, we are ranked number one in the Market Street Challenge ranking in the US - of the US bottlers. So what we do is we prioritize most of all associate engagement and we empower the frontline to lead market execution. And that's in summary the idea, the fundamental idea. So we are focused on some brands that have grown faster like CorePower, Fair Life, Body Armor, Monster, Topo Chico, all of those are SKUs that are profitable and have been growing significantly this year, particularly in the second quarter. And also, activations and partnerships with MLS, the FIFA World Cup, et cetera. We have new campaigns also like Share a Coke. We have campaigns for Smartwater. There's a lot of innovation behind it. Also the promotion of mini cans, which are a very important package.

So it's a combination of better execution, innovation, alignment with the frontline and also more sophisticated pricing tools and promotional tools as well - optimization of promotions. Suggested order algorithms - we talked about before. So it's a number of things and I would say a combination of a traditional playbook that we've used in our markets in Latin America as well and how we align incentives with the frontline, and also the new technologies that have supported many of the decisions in the marketplace. There are additional effects that helped margin in the US. I will turn it over to Emilio to explain some of the OpEx comps that we had in the quarter that also were important to have great margins in the second quarter.

Emilio Marcos: Yeah, thank you, Arturo. Thank you for the question. Yes, I'd just add that the single-serve packages, as Arturo mentioned at the beginning, has increased by 0.7%. So that's also part on the first half of the year. So that's part also of the better mix in presentations with more profitable packages. And also as we have mentioned, the disciplined expense management has been reflected in a lower OpEx in the quarter and the first half of the year. As you may remember, the first half of last year in US, we accelerated some direct marketing expenses and also training and maintenance in our facilities. So this year, it was not needed to accelerate those expenses. So the comparison is we have lower OpEx. So that helped the margin in the first half of the year. So we should end the year with the same margin levels than last year at the end of the year.

Rahi Parikh, Barclays: Makes sense. Thank you so much.

Arturo Gutierrez: Thank you, Rahi.

Operator: Thank you. Our next question comes from Froylan Mendez with JP Morgan. Please go ahead. Your line is open.

Froylan Mendez, JP Morgan: Hello, good morning. Thank you for taking my question. This regarding your last comment about the channel performance in Mexico. I think you mentioned traditional channel was down almost 5% versus the modern channel being flat. Is that like the typical behavior that you see in a slowdown as the one that we are seeing? Probably I would have expected a different combo there on the traditional channel probably outperforming the modern, but is that a typical situation or was there anything in particular during the quarter to explain this?

Arturo Gutierrez: Hi Froylan. Good morning. I think what we need to do to understand it better is to break down the modern channel performance, which again, was down slightly, but supermarkets performed much better than convenience stores. So we did see a significant reduction in traffic, both in the retail - the convenience retail and traditional channels. I think that was affected by weather to a great extent. That's what we have concluded. But definitely supermarkets outperformed the other channels throughout the quarter. So I think that kind of sustains the, you know, the theory that it's mostly weather-related and some comps that we had, but also some slowdown in consumption and traffic that would affect everybody because even, you know, the fast growing brands and channels were slower than what we would expect in the second quarter. So I think we have to take into consideration that we did have an exceptional second-quarter last year. So we've said before, this is not going to be a straight line if we look at growth going forward. We still expect growth to be recovered. And if you look at the next probably 12 months in Mexico, I think it's going to be great because we don't see any fundamental issue. We've been solid in our market leadership and our market share is recovering. So I think it was basically the factors that I mentioned before.

Froylan Mendez, JP Morgan: Thank you. And if I may just ask on South America, the margin strength that we saw during the quarter. Could you just give us some color on the main drivers for this?

Arturo Gutierrez: Yes. Well, I'll ask Emilio to elaborate. But in general in South America, what we saw was a significant recovery in volume in Argentina. Peru as well. And in Ecuador, even though the market was - the conditions in the market were not very favorable, we were very good at sustaining margins through efficiencies. They did a great job in OpEx efficiencies and cost controls. But I'll ask Emilio to elaborate further on South American margins.

Emilio Marcos: Yes, thank you, good morning. Well, basically the volume and the positive trend is the main driver for that. But also in Argentina, as you know, we keep having the positive trend in volume and continue improving profitability supported with the recovery in volumes and stability in both the exchange rate and inflation so that is helping a lot the margin in Argentina.

Then in Peru, we have a sequential improvement in volumes. Last quarter, we have a positive volume. First quarter was a negative volume. So that has a positive, also, effect in margins.

And the main one is Ecuador, which besides the positive trend also in volumes, even though it's still negative, but much better than the first quarter. We also have better sugar pricing, better OpEx compared to last year. So that's making the margin improve in the quarter and the first half of the year. So we are expecting to continue with this favorable market dynamics in all these three countries to continue the positive trends in margins for the rest of the year.

Froylan Mendez, JP Morgan: Excellent. Thank you very much.

Arturo Gutierrez: Thank you, Froylan.

Operator: Thank you. We will move next with Alvaro Garcia with BTG Pactual. Please go ahead.

Alvaro Garcia, BTG Pactual: Hey, good morning. Arturo, Emilio. I have a question Arturo on sweeteners. President Trump yesterday talked about the Coke in the US using cane sugar. My understanding is that 100% of your sweetener needs in the US are fructose. I was wondering if you could make some comments as to how your production might have to adapt and how you're thinking about it. I know that the news is sort of fresh off-the-shelf, but any sort of context would be very helpful. Thank you.

Arturo Gutierrez: Yes. Thank you, Alvaro. Good morning. Well, yes, as The Coca-Cola Company has noted, we, first of all appreciate President Trump's enthusiasm for our brand. And yes, together with Coke, we are working on developing some innovative offerings for our US consumers in a way to expand our portfolio and to introduce new options under the Coca-Cola brand in the US. We look forward to sharing more details with all of you very soon.

Operator: Thank you. Our next question comes from Fernando Olvera with Bank of America. Please go ahead.

Fernando Olvera, Bank of America: Hi, good morning and thanks for taking my question. My question, Arturo, if I may, is regarding your top-line guidance for the year that you reiterated at the beginning of the call or in your initial remarks. Maybe if you can give us some color of what will be the growth drivers for the second half of the year considering that in the first half, we saw a low single-digit growth on a currency-neutral basis. And I understand that the guidance is to achieve a high single digit growth, right? So if you can give us some color on the drivers, it would be great. Thank you.

Arturo Gutierrez: Yes, Fernando, good morning. Yeah, actually, we confirm our guidance for '25 to have revenue growth in the high-single-digit. And that would be our consolidated revenue for the year, aside from FX effects. So what we expect is for the rest of the year is volume to stabilize in our main markets, meaning Mexico and the US. And again, we're going to be working on sustaining margins and profitability as we do that. That means pricing - we expect that to be in-line with inflation, I would say, in every market. Argentina would be the most challenging considering the inflation, how it's been declining, but it's hard to estimate, but we expect that to be achieved as well. So we are looking at a obviously much better second half of the year in general, and that's why we are still confident on the guidance that we have provided.

Fernando Olvera, Bank of America: Okay. Perfect. And just very quickly regarding your acquisition of the sugar mill in Argentina, if you can comment about the rationale behind that and how this helps you to cover your sugar needs? In the country? Thank you.

Arturo Gutierrez: Yes. Well, if you see our project of the sugar mill that we acquired in Argentina some years ago, it has been very successful to optimize our cost sweeteners in that market. That vertical integration has resulted in a very, very good project for us. So we are expanding the operation of a sugar mill acquiring this additional facility, which would get us to a further integration and to reach 80% of our sugar needs in that market. So I think that's very favorable for our costs and also for our stability of margins going-forward.

Fernando Olvera, Bank of America: Great. Thank you, Arturo.

Arturo Gutierrez: Thank you, Fernando.

Operator: Thank you. Our next question comes from Rodrigo Alcantara with UBS. Please go ahead.

Rodrigo Alcantara, UBS: Thanks, yeah, so most of my questions have already been answered. So I guess just for not to be repetitive here, maybe if you can comment on the rationale of that acquisition that you announced of Imperial, right? Of the vending machines? If you can comment a bit about the economics of that and also the rationale behind that acquisition? That would be my question, Arturo. Thank you.

Arturo Gutierrez: Thank you, Rodrigo. I'll turn it over to Chuy that would explain that further. I will just tell you that our vending machine operation has been a key pillar for our strategy over many, many years. We currently operate close to 60,000 platforms and we have been engaged actively in this segment for a long time. So we're going to leverage our capabilities, and we see this as a good opportunity and a lot of synergies with our current business as well. But I'll have Chuy explain a bit more about the rationale and the project.

Jesus Garcia: Sure. Thank you, Arturo and thank you, Rodrigo, for your question. I mean, as Arturo mentioned, we have been actively engaged since 1998 in the vending business. This is obviously very close to our core beverage business. And it's a key pillar of our direct-to-consumer strategy. We are, in fact, one of the leading players in both Peru and Mexico, but our footprint in the US remains relatively small. So we do see some potential for growth in that market, and obviously generating some synergies for our beverage business as well. And as Arturo mentioned, we operate over 60,000 vending platforms in those three markets and serving mainly work, education, entertainment and health channels. As far as the economics of the transaction that hasn't closed, so we're not able to disclose any of that information at the time.

Rodrigo Alcantara, UBS: Awesome. Thanks. And just to confirm here, I guess that asset catches a bunch of other segments. You are just acquiring then vending machine segment? Is that correct? Thank you.

Arturo Gutierrez: The vending machine and some of the micro markets platforms as well.

Rodrigo Alcantara, UBS: OK. Thank you.

Arturo Gutierrez: Thank you, Rodgrido.

Operator: Thank you. Our next question comes from Felipe Ucros with Scotiabank. Please go ahead. Your line is open.

Felipe Ucros, Scotiabank: Thanks, Operator. Good morning, Arturo, Emilio and team. So a couple of questions on my side. The first one on brand sentiment. What's your level of confidence that we're past that anti-American sentiment that you guys experienced in the earlier months of the year. I know you weren't very vocal about it, but it seemed like the Coca-Cola Company was a little more vocal on their call last quarter. And I'm just wondering if your market shares seem to be back where they were. So I guess from now on, we should be dealing with different issues in this in the past. So just wondering what your confidence is around that.

And then the second one on efficiency, one of the things that usually attracts investors to the business model is your historical ability to deal with hard moments with good gains on efficiency. So I imagine your plans are being rolled out in Mexico or have already been given that the volumes haven't been very strong. But just wondering if you can give us some details about what you have in-store on this front? Thanks a lot.

Arturo Gutierrez: Yeah, for sure, so first, in terms of the consumer sentiment about the brands, yeah, I think that it did not have an impact in the second quarter. We did have that issue in the first quarter of the year. We had a few weeks where it did impact share as you mentioned, but I think we are recovered completely now, maybe a small impact in the first part of the second quarter, but not relevant. Many learnings. We will be very proactive in addressing all these potential threats and providing consumers with accurate and transparent information. So that's really key for the future and monitor all these potential confusion that can temporarily have an impact.

With respect to efficiencies, yeah, we have a strong pipeline of projects in many different areas. Let me just summarize a few. Probably the most critical – packaging – continuously evaluating, testing, optimizations and packaging, lightweighting, driving cost efficiency, also sustainability. We have reduced the use of PET resin in the last few years and we're on track to reduce that further. We have a plan up to 2030. In logistics, new supply-chain technology with Blue Yonder, that's improved our forecast accuracy and that's an all-time high now in Mexico and the US. And we're rolling that out. In manufacturing, centralized maintenance planning is fully implemented in Peru and in Mexico. So we are preparing for launch in the US and further rollout. This technology that we call RED Submarine, which is equipment for carbonating beverages at higher temperatures also has been rolled-out. We still have probably maybe 25 of facilities to install those devices, which as you know, have a significant impact in cost and also on a positive impact on sustainability and carbon footprint.

And digitalization is also an efficiency project as we rolled out our platforms, we identify opportunities to reduce our cost-to-serve, incorporating AI machine-learning, et-cetera. So in coolers, the IoT technology and controllers in coolers allow location tracking and give us performance insights. So that also reduces maintenance costs. So there's a long list of projects and that is what sustains you know the profitability and makes us very confident of our prediction to be able to sustain margins going forward, even in this very difficult environment.

So ultimately, what we to try to demonstrate is that in difficult times like we've seen in the second quarter, probably we're not going to see growth, but we're still going to see a profitable operation. And then when we have some tailwinds in the future, we will capitalize on many of the investments that we continue to do to sustain market leadership, like improving our infrastructure, our digital initiatives and also our fundamental playbook with coolers, et-cetera.

Felipe Ucros, Scotiabank: Very clear. And if I can ask a very short follow-up on Capex plans. Obviously, you guys were driving this, I would guess, a little bit of an accelerated expansion given that you were a little bit constrained, particularly in Mexico in recent years. Just wondering if the fact that volumes have slowed down a little, whether that has kind of made you re-evaluate plans at all or should we assume that the exact same plans are still in place? Thank you.

Arturo Gutierrez: Yeah, that's a very good point. We have been re-evaluating it and considering things that might not be as critical and that can be postponed. But at the same time, we are very keen on identifying those things that are really important to emerge stronger out of this situation and slowdown, and those will continue. Some of the infrastructure projects for sure. Some of the cooler expansion. A good example of that is we're increasing coverage of coolers in Peru, which has been very low. Actually, we've increased our CapEx for that specific need in Peru, but we are looking at the same time to optimize things or postpone some of the less critical for the year.

Felipe Ucros, Scotiabank: Very clear. Thanks a lot for that color.

Arturo Gutierrez: Thank you, Felipe.

Operator: Thank you. Our next question comes from Renata Cabral with Citibank. Please go ahead.

Renata Cabral, Citibank: Hi, good morning, everyone. Thank you so much for taking my questions. So the first one is about the margin protection that you mentioned early in the call. Can you give us some color in terms of how is the hedging position right now? So in terms of raw materials? So that would be my first question. Thank you.

Arturo Gutierrez: Yes. Thank you, Renata. I will turn that over to Emilio, please.

Emilio Marcos: Yes. Thank you, Renata, for the question. Good morning. Well, as we have mentioned, we have continued with stable and favorable trends in most of our raw materials. And we have a very healthy hedge program in place. So let me give you some specifics. For example, for aluminum, we have 100% hedge for our needs in LME in Mexico and 97% in US. That's one of the components on the aluminum cost. And that's below the spot price, the current spot prices, but a little bit above 2024. So we are basically 100% covered on that part of the aluminum cost.

And also for MWP, which is the other component of the cost, we have hedged 46% for our needs in US, also below the spot price - the current market prices. And that's helping us to mitigate an important part of the impact from the tariffs that were to aluminum in the US at the beginning of the year. So we are mitigating a lot of this impact on tariffs for aluminum.

And additionally, we have 100% hedged our needs in Peru for sugar below 2024 prices. So we have a better position there in Peru with sugar and 100% also hedge of our high-fructose needs in Mexico in-line with 2024 prices, and 79% of our high-fructose needs in US also in-line with last year's cost.

So as you can see, we are very well covered on any risk - on changes on this trend on raw materials.

And regarding currencies, we have hedged 100% of our needs in Mexico of US Dollar and 80% in Peru with a better exchange rate than last year. So also regarding currency, we are in a very good position there.

Renata Cabral, Citibank: Thanks so much for the color. Very useful. And my second question, it's a quick one and a follow up regarding Argentina. So you already comment about the margin improvement, we saw that the last quarter was 1.5%, this quarter 7.1%. In the past, we saw that margin in Argentina was already plus 14%. So we understand that the recovery can be in a soft pace. But do you think it's possible to achieve in a long-term this 14% that the company had in the past?

Arturo Gutierrez: Yes, Renata, we are working our way back to get to those levels. So if you look at our top-line, consumption is recovering in Argentina this year and we have strong momentum in some sectors, but we're not yet at the 2023 level. So as we move in the second half of the year closer to that baseline, we're also going to be recovering margins. We are working also very actively on our OpEx, which is very important in Argentina, as you know, in this still high inflationary environment, and in our cost side, I mentioned the sugar mill project that's also going to help. So yeah, we're working our way back to that level of margins.

Renata Cabral, Citibank: Thank you so much for the color.

Arturo Gutierrez: Thank you, Renata.

Operator: Thank you. Our next question comes from Antonio Hernandez with Actinver. Please go ahead. Your line is open.

Antonio Hernandez, Actinver: Hi, good morning. Just a quick question on my side. Regarding still beverages in both Mexico and the US, you performed quite well there. You mentioned already a couple of strategies that you're following, I guess, in the US. Just wanted to know what are the drivers of this category in Mexico? And how were these - was this was category in both countries protected from the other headwinds that other categories faced, i.e weather and so on? Thanks.

Arturo Gutierrez: Yes, Antonio. What I would say in general is that in the case of Mexico, yeah, and even in the US, these categories have a significant runway for future growth and development. If you look at Mexico, the mix in relevant categories in sports drinks and energy, the basic categories, it's still fairly low. So that will continue to drive growth. Even though we were cycling a strong growth from '24 as compared to '23, we grew in Mexico more than 17% stills in '24. We still were able to achieve growth this year driven by tea, by juices - tea was double digit, energy drinks were double-digit. So I think those categories still have a significant runway because they are not as developed as in other markets.

In the US, I think there's also an opportunity mostly based in innovation, I would say. So products like Core Power, like Body Armor have a tremendous opportunity. And brands like Topo Chico, which is not in the stills segment, but it's a similar performance. Brands that still have an opportunity for further growth, we'll continue to see that we believe in the future. So even though we have this difficult environment in the US, we were cycling a, I believe, more than 6% growth in stills categories, we were able to grow that segment in this difficult environment. So it tells you about how we have a tremendous opportunity as we have expanded our portfolio beyond the traditional sparkling categories and brands.

Antonio Hernandez, Actinver: Perfect. Thanks for the color.

Arturo Gutierrez: Thank you, Antonio.

Operator: Thank you. Our next question comes from Henrique Morello with Morgan Stanley. Please go ahead.

Henrique Morello, Morgan Stanley: Hi, thank you Arturo, Emilio for taking my question. So I would like to ask a more broad question about your low and no sugar portfolio expansion. So we continue to see your products such as Coke Zero growing a lot quarter-after-quarter at an accelerated pace. So if you could comment on how was your experience so far with the low and zero sugar portfolio in markets that have a lower penetration of such products such as Mexico? And if you could explore maybe if you did some specific adjustments for those countries? How are you seeing the cannibalization of the full sugar portfolio?

And perhaps if you think it's feasible to reach like the 30% level that we see in more mature markets on that front in the longer term? And what are your goals here? That would be very helpful. Thank you very much.

Arturo Gutierrez: Thank you, Henrique. I think it will be a similar answer to what I told Antonio a moment ago. These subcategories or the subcategory in Latin-America is not really as developed. So it will continue to grow. I think it's supported by great innovation. This new version of Coke Zero has been very successful, I would say, in every market. So what we have seen in this quarter, particularly in Mexico, a growth of almost 24%, which is, under this environment, it tells you a lot about how successful this product would be. And there would be maybe a natural transition of some consumers - many times as they age from a classic Coke to Coke Zero, that would be probably a natural thing to expect. But also it's been a way to capture more weekly consumers in those markets. And I think it's a similar situation in other of our Latin American markets as well. In Ecuador, also a significant opportunity. It has additionally some tax advantages in some of the markets. So that also will continue to drive growth of this portfolio.

Henrique Morello, Morgan Stanley: That’s pretty clear, thank you.

Arturo Gutierrez: Thank you, Henrique.

Operator: Thank you. Our next question comes from Carlos Laboy with HSBC. Please go ahead. Your line is open.

Carlos Laboy, HSBC: Yes, hello, everyone. Arturo, it would have been very easy, I think, for Jean-Claude and for your US team to focus on the account base that you found at Coca-Cola Southwest when you got there. But it seems that the US team has been growing the number of clients significantly, looking for different ways to develop the market. I was hoping you could maybe expand on that a little bit. And even this small canteen business that you just bought in the US would seem to be an example of that. Can you speak to how significant or important it's been to grow that client base? Any context you can give us around that?

Arturo Gutierrez: Yes. Thank you, Carlos. I think this goes back to this fundamental philosophy that we have discussed and you have pointed out over time about how you have to be more customer-centric in operations and obviously, efficiency and cost-to-serve are important for everybody, but I think the main purpose of our business is how to create shared value with our customers and connect better. And I think what the team has done in the US is precisely have that priority or that idea come to life with the frontline more than anything, and aligning incentives of the frontline of the many things that we are doing in the marketplace.

But one additional factor that I think has been very important for that is the incorporation of platforms of technology and how that combines with, you know the reskilling of our frontline to connect better with our customers and to focus on also the on-premise market with, I would say, more intensity and to leverage the equity of our brands in every market, promote more of the bottle-can formats versus just go for the simple solutions of the fountain options. So there are so many things behind that in that, you know, change that has been implemented over the years in the US. And again, I go back and it probably sounds a bit cliche, but it goes back to the culture that has been built in the US and it does have a metric. And so when we see engagement scores in the US, I don't know if we told you this before, Carlos, but engagement scores now in the US for our associates are the highest in our five beverage business units. So it tells you a lot of the work that has been done with our associates and obviously that translates with a much better connection with the customers.

So our investment in this new business Imperial, I think it's going to be based on the same fundamental idea and we hope that it's going to bring synergies, particularly for Coca-Cola Southwest, which a big portion of the synergies of that acquisition are going to be materialized in the Coca-Cola Southwest P&L actually, but it's based on the same fundamental idea.

Carlos Laboy, HSBC: Thank you.

Arturo Gutierrez: Thank you, Carlos.

Operator: Thank you. Our next question comes from Federico Galassi with TRG. Please go ahead.

Federico Galassi, TRG: Hi, Arturo, Emilio. Thank you for taking my question and congrats again for the results. Most of the question was answer before, but -- it was more related to US, but maybe the question is: after you made the acquisition, you have a target and your initial targets in particular in margins. But thinking in the next years, do you continue to see room to improve the margins, operations, distributions and in particular, when you showed the numbers of the growth in Coke Zero, Body Armor, Monster, how is all these brands, no Coke brands, if you want, improving the margins and improving the revenues?

Arturo Gutierrez: Yes. Thank you, Federico, well, as we look at the future, we are working on things that we can control. I mentioned some of the efficiency projects in the US. I would highlight this project of bringing in three new high-speed lines and warehouse capacity in Fort Worth, San Antonio, Oklahoma, that's going to bring a significant productivity to our manufacturing and distribution costs. So projects like that require investment, but we will continue to do and that is going to bring productivity and efficiency to our operation.

We're also going to face obviously some headwinds. So in particularly in the challenge of growing some categories. So at the end, we expect and we aim to sustain our margins going forward. The goal also has been to focus on some of the more profitable packages, as I said before, that we're going to continue to do. So if you look at the business case that we prepared when we acquired the business going back to your point of our acquisition more than eight years ago, we far exceeded that business case. So we are now setting ourselves new goals. But I think it's for us, I think it's a prudent goal to say we're going to sustain margins going forward.

Federico Galassi, TRG: Okay. Thank you so much and congrats again.

Arturo Gutierrez: Thank you, Federico.

Operator: Thank you. And we show no further questions at this time. I will turn the call back to Arturo Gutierrez for closing remarks.

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Arturo Gutierrez: Thank you, operator, and thank you again everybody for your time and for your continued support and trust in our company. As always, our Investor Relations team will be available for any follow-up discussions or questions you may have. We look forward to reconnecting with you in our next quarterly update. Have a great day.

Operator: Thank you. This does conclude today's program. Thank you for your participation. You may now disconnect.

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