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Arca Continental

Third Quarter 2026 Earnings Call Transcript

October 30, 2026 @ 9:00am CT

Operator: Good day, everyone, and welcome to the Arca Continental third quarter 2026 conference call. 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 2026. 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, the Chief Planning and Strategic Capabilities Officer, Mr. Jesus Garcia, and the Chief Operating Officer, Mr. Jean Claude Tissot. 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. Good morning, everyone, and thank you for joining us today.

Arca Continental delivered a strong third-quarter performance, demonstrating the adaptability of our business model and our ability to evolve quickly as market conditions change.

During the period, volume trends improved in each of our operations while profitability remained solid. By staying close to consumers and customers, our teams responded with greater speed and flexibility, adjusting commercial execution and operating priorities to local dynamics while maintaining prudent financial management and a clear focus on business fundamentals.

While our operating environment remains complex, we enter the final part of the year with greater momentum across our markets and a solid foundation to sustain this progress.

With that, let me begin with our consolidated results.

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Total consolidated volume increased 4.6% in the third quarter and 2.7% year-to-date, marking a clear acceleration from the first half of the year.

Notably, our Stills category grew 7.1%, while Sparkling was up 4.9%, with positive contributions from both segments of our beverage portfolio.

Consolidated net sales rose 5.9% in the period and 2.1% year-to-date, supported by solid commercial execution and disciplined pricing.

EBITDA improved 6.2% in the quarter and 2.1% for the first nine months, reaching margins of 20.5% and 20.0%, respectively, underscoring the quality of the recovery and the strength of our underlying business economics.

Turning now to our operating results.

For our beverage business in Mexico, unit case volume, excluding jug water, increased 2.1% in the quarter and 0.7% year-to-date, marking a notable sequential improvement.

This result reflects the consistency of our business and the alignment between our commercial priorities, market execution, and the capabilities we have built over time.

Our revenue growth management agenda remains central to this approach. Returnable formats and single-serve packages gained share of mix, serving as commercial levers within a price-pack architecture designed to address affordability and support the profitability of the business.

Channel trends were positive during the quarter, led by Modern Trade and supported by growth in Traditional Trade, while On-Premise remained broadly stable.

Coca-Cola Zero maintained a strong trajectory, growing 32.0% during the period and gaining share within the Coca-Cola brand mix. Our initiatives are broadening the consumer base, driving frequency, and converting higher engagement into incremental volume through a growing number of transactions.

We are strengthening our route-to-market strategy through improved service models and further digitalization at the point of sale. Timely investments in planning and operating capabilities are reinforcing product availability, with out-of-stock levels remaining at historical lows.

Together with The Coca-Cola Company, our innovation agenda is increasingly consumer-centric by being relevant to the occasion. Closer connections to the market, supported by faster data and insights, enable us to identify emerging trends and assess category performance. Launches such as Topo Chico Adas and Coca-Cola Zero Caffeine Free reflect this mindset, expanding consumption occasions and reinforcing brand relevance while supporting our long-term growth algorithm.

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For the region, net sales increased 3.7% in the quarter and 4.0% year-to-date with average price per case, excluding jug water, up 3.9% over the three-month period and 4.6% year-to-date.

EBITDA grew 7.5% in the quarter, with margin expanding 80 basis points to 24.7%. Year-to-date EBITDA improved 4.9%, reaching a margin of 23.5%, an increase of 20 basis points.

Moving to our operations in the United States, Coca-Cola Southwest Beverages delivered a positive third quarter, with total volume increasing 1.1% and transactions growing 1.5%, reflecting improved commercial trends despite a cautious consumer environment. Year-to-date, volume and transactions were up 1.0% and 1.8%, respectively.

Transaction growth remains an important indicator for our business. Our focus is on expanding purchase occasions through targeted affordability and premiumization, relevant packaging and sharper promotional activity.

Behind this effort, advanced analytics and digital tools are enabling more precise outlet-level decisions, improving product availability and route-to-market productivity, while allowing our teams to respond faster to evolving consumer behavior.

Results across the portfolio were encouraging. Sparkling beverages increased 2.0% and Stills grew 5.9%, with Coca-Cola Zero up 15.0%, sports drinks rising 10.9%, and Fairlife increasing 20.6%.

Net sales increased 5.4% in the quarter and 5.1% year-to-date, with average price per case up 4.3% during the period. EBITDA grew 4.6% and 5.1%, respectively, with margins of 17.0% and 17.1%, demonstrating the resilience and profitability of the business. This performance was supported by efficiency measures, rigorous cost control, and an effective hedging strategy to mitigate ongoing cost pressures.

Finally, the expansion of our San Antonio facility represents a significant milestone in the ongoing optimization of our Coca-Cola Southwest Beverages operation, increasing capacity, enhancing operational flexibility, and supporting a more streamlined supply chain to better serve our markets.

For our beverage operations in South America, total volume increased 17.5% in the third quarter and 10.5% year-to-date. Peru and Ecuador led this performance, where volumes reached record levels, while Argentina delivered a sequential recovery.

Revenues increased 30.1% in the quarter, with EBITDA up 23.3% and a margin of 17.1%. Year-to-date, revenues grew 8.2% and EBITDA increased 3.7%, with a margin of 17.7%.

The region's progress reflects stronger operating trends, disciplined execution and the benefits of the capabilities and investments developed in recent years.

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Peru delivered another exceptional quarter, reaching the highest quarterly volume in the history of our operation. Total volume increased 24.3% year-over-year, reflecting broad-based strength across categories, channels, and regions.

Performance remained solid across our strategic priorities. Coca-Cola and Inca Kola grew 23.8% and 18.4%, respectively, while our hydration platform expanded 37.7%. The energy drink category delivered a notable performance as well, increasing 33.4% during the quarter and further expanding its mix within our portfolio.

Positive momentum was evident throughout our route-to-market, with all channels delivering double-digit growth during the quarter. Investments in cooler coverage, service frequency, customer development, and distribution are sustaining this trajectory while improving product availability and execution.

Looking ahead, we are preparing proactively for potential weather-related impacts, with infrastructure and contingency measures designed to protect service levels, our communities and business continuity.

In Ecuador, volume increased 18.1% in the quarter and 11.9% year-to-date, reaching its highest level in six years.

Performance benefited from segmented plans by brand, sharper price-pack architecture and targeted initiatives behind our zero-sugar portfolio and priority packages. By category, Sparkling and Stills grew 18.8% and 19.6% during the quarter, respectively.

Additionally, channel dynamics were favorable, with both Modern and Traditional Trade delivering double-digit growth.

During the quarter, we expanded availability, reinforced execution, and supported value share gains in Sparkling, while disciplined expense management and operating efficiencies contributed to improved profitability.

In Argentina, volume returned to positive territory during the third quarter, up 0.3% year-over-year.

This result underscores the progress we are making in a still-challenging consumption environment. Sparkling beverages remained broadly stable, with Coca-Cola Zero and Sprite among the main drivers of the recovery in the category. Furthermore, single-serve formats continued to gain relevance within the portfolio.

Our market position remained solid, with additional value share gains in NARTD beverages versus the prior year, as Sparkling strengthened its leadership.

We are complementing our commercial initiatives with greater precision. Our Suggested Order tool, advanced segmentation and new service models are helping expand the portfolio, improve product availability, and strengthen execution at the point of sale.

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For our Food and Snacks businesses, Bokados posted positive third-quarter results in Mexico, with net sales and EBITDA growth driven by core-category strength, lower variable costs, disciplined expense control, and broader brand coverage.

In Ecuador, Inalecsa maintained its market leadership and gained share, while delivering double-digit EBITDA growth, benefiting from effective pricing, expanded customer reach and solid commercial execution.

On sustainability, we keep taking tangible action across our longstanding commitment to community development and circular economy strategies.

As part of our 100th anniversary, we brought together our ongoing volunteer efforts in a commemorative initiative spanning all five operating countries. More than 8,000 associates and family members contributed approximately 25,000 hours to educational infrastructure projects benefiting 170 schools.

We also expanded our PetStar collection network with new centers in Mexicali and Chihuahua, each able to recover up to 54 million PET bottles annually. These investments add to our local collection capacity and support our approach to circular packaging, recycling, and environmental awareness.

Together, these actions show how sustainability is embedded in our operations, promoting responsible resource management and generating shared value for the communities where we operate.

With that, I'll turn it over to Emilio. Please, Emilio.

Emilio Marcos: Thank you, Arturo. Good morning, everyone, and thank you for joining our call.

As Arturo highlighted, our third-quarter results reflect continued progress despite a still challenging macroeconomic environment. Our solid Revenue Growth Management capabilities were reflected in our positive top-line performance, while disciplined cost and expense management drove EBITDA growth and margin expansion during the quarter. We remain committed to maintaining this discipline while continuing to support the growth of our business.

Let me offer further insight into our financial results:

In the third quarter, consolidated revenues increased 5.9%, reaching $66.6 billion pesos. Revenues for the nine months of the year rose 2.1% to $187.2 billion pesos mainly driven by positive volume performance and an effective pricing strategy. On a currency-neutral basis, revenue rose 7.5% in the quarter and 7.0% year-to-date.

During the quarter, gross profit increased 7.2% to $31.7 billion pesos, while gross margin expanded 60-basis points to 47.5%. For the nine months of the year, gross profit grew 3.6% to $88.8 billion pesos with gross margin expanding 70-basis points to 47.4%. On a currency-neutral basis, gross profit grew 10.6% in the quarter and 8.5% year-to-date.

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For the quarter, consolidated EBITDA increased 6.2% to $13.6 billion pesos, with a 10-basis points margin expansion, reaching 20.5%. In the 9-month period, EBITDA grew 2.1% to $37.4 billion pesos, while we protected EBITDA margin at 20.0%. On a currency-neutral basis, EBITDA rose by 7.9% in the quarter and 6.3% as of September.

Net income for the quarter decreased 4.8%, reaching $5.1 billion pesos, resulting in 80-basis points contraction in net profit margin. For the year-to-date period, net income totaled $13.8 billion pesos, marking a 7.5% decrease compared to the previous year, with a 70-basis points contraction in net profit margin, mainly explained by operating margin dilution and variation in the Comprehensive Cost of Financing.

Now, moving on to the balance sheet:

As of September, cash and equivalents totaled $28.6 billion pesos, while total debt stood at $61.7 billion pesos, resulting in a net debt to EBITDA ratio of 0.7x times.

We declared an additional extraordinary dividend of $2.00 pesos per share, paid on October 28. Together with the ordinary dividend of $4.28 pesos per share paid in April and $2.50 pesos per share paid in August, total cash distributions reached $8.78 pesos per share. This represents a payout ratio of 77% of retained earnings and a dividend yield of 4.3%.

Looking ahead, macroeconomic conditions are expected to remain challenging through year-end. We are confident in the strength of our business and our ability to navigate the current environment effectively. Our core capabilities and disciplined approach to cost and expense management will continue to support our commitment to delivering sustainable long-term value.

That concludes my remarks. I'll turn it back to Arturo. Please, Arturo.

Arturo Gutierrez: Thank you, Emilio.

As we conclude the third quarter, our consistency continues to stand out. The sequential improvement in our operations, together with solid profitability, reflects the strength of the fundamentals underpinning Arca Continental and supports our decision to confirm our 2026 guidance for mid-single-digit consolidated sales growth on a currency-neutral basis.

This is grounded in how we manage our business: staying close to our customers, acting decisively on the factors within our control, preserving financial discipline, and directing resources toward priorities that reinforce our competitive advantages over time.

Looking ahead, that same approach guides our decisions, combining thoughtful capital allocation and a long-term investment perspective, while building the capabilities that support sustainable value creation.

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We are now ready to answer your questions. Operator, please proceed.

Operator: Thank you. If you would like to ask a question, please press star one on your touchtone phone now. We will pause for just a moment to allow everyone the opportunity to signal for questions to queue.

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

Ulises Argote, Santander: Hello, good morning. Thanks for taking my question. I wanted to get some color there on the U.S. execution and the drivers behind the volume improvement we saw in the quarter. And also, maybe if you can comment a little bit in terms of what we could expect or how we should think about the EBITDA margin trajectory going forward there in the U.S. given the dynamics that we saw this quarter? Thank you very much.

Arturo Gutierrez: Thank you, Ulises, for the question. I'll turn that over to Jean Claude.

Jean Claude Tissot: Thank you, Arturo. Thank you, Ulises, for the question. We had a very solid performance during the third quarter in the U.S. There was a main focus on execution. One of the key metrics was SOVI. We were able to gain SOVI through all our large stores. We increased more than four points.

Something that I would like to remark is that the solid results allow us to grow share in the Sparkling - to a record high in market share for Sparkling. There was a focus on regular Coke that we were able to grow. And also, we continued with the solid performance with Coke Zero growing more than double digits and the efforts that we are doing with Core Power. And execution with an end-to-end approach where we have a record high in our fill rate numbers with the customers and internally in our supply chain.

In terms of EBITDA margin, Emilio, I think that you can help us.

Emilio Marcos: Yes. Sure. Thank you, Ulises, for your question. Yes, we had in the region, a contraction of 10 basis points due to higher aluminum prices and transportation costs in Coca-Cola Southwest and a lower result in our snack business.

But talking about our beverage operation, the margin for the quarter was 17.1% with a 10% dilution in the quarter. But year-to-date, we have an expansion of 10 basis points. So going forward, we feel comfortable to close the year at the same levels of last year for Coca-Cola Southwest.

Arturo Gutierrez: So Ulises, you can see that most of the pressure in margins comes from the volatility that arises out of the geopolitical tensions impacting some of our input costs, not necessarily from the fundamentals of our own business.

Ulises Argote, Santander: Thank you very much. That's kind of the detail that we want to get. So again, thank you very much for the detail.

Arturo Gutierrez: Thank you, Ulises.

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

Ben Theurer, Barclays: Arturo, Emilio, team, thanks for taking my question. Picking up on the other side in Mexico, you obviously had margin expansion. So we now discussed already the U.S. contraction. So now let's go on the expansion side in Mexico.

Can you maybe help us understand more what were the drivers of that margin expansion? Was it the mix shift? Was it raw materials, operating efficiencies? Just how to understand a little bit the drivers behind that and what we should think about in the more immediate future for the fourth quarter and then maybe looking a little bit beyond on the Mexico profitability side as it relates to your margin profile?

Arturo Gutierrez: Sure, Ben. Thanks for your question. I would say it's kind of all of the above in a way. We're very happy with the results in Mexico in a very challenging year for different reasons. I'll ask Emilio to give you a bit more detail on margin performance in Mexico.

Emilio Marcos: Yes. Thank you, Ben, for the question. And I think it's a combination of several variables. EBITDA in Mexico grew 7.5% in the region and with a margin expansion of 80 basis points to 24.7%. The performance, as you mentioned, there's several variables.

One is volume -- positive volume growth. The second one is pricing. We increased prices during the quarter. So price, if you compare the quarters, is 3.5% above compared to last year. Our returnables and single-serve packages gained share in the mix. So that also helps. And also, we should consider the hedging strategies and the lower sugar prices also in the quarter.

Looking forward, we will continue working to maintain this year-to-date positive trend. So we expect the year to close with the same trend as we have in the first nine months of the year.

Arturo Gutierrez: I will only add, Ben, that we also are very satisfied with the indicators of our fundamentals and how those have improved over time. Some of that is leveraging our digital capabilities, also the investments that we have made over time and those also are giving us this momentum.

And as we think about our strategy, we've talked about our fundamental strategy of affordability in Mexico and in other countries. I think it's very important to highlight that this is a strategy that is also looking for a profitability behind it. It's easy to be affordable if you are not looking at the profitability side of the business. So for us, the returnable strategy, for example, supports precisely that idea where both variables are really important. And we -- I think we've achieved that this first three quarters of the year.

Ben Theurer, Barclays: Ok, perfect. Thanks very much for the color.

Arturo Gutierrez: Thank you, Ben.

Operator: Thank you. We will move next with Lucas Ferreira with JP Morgan. Please go ahead.

Lucas Ferreira, JP Morgan: Hi guys. Thanks for the space for questions. My question is also on Mexico. So talking about both pricing dynamics and market share. So can you talk a little bit about the schedule for pricing if you already took pricing mid of this year and if you think will require more pricing to adjust for the inflationary pressure that we normally see? And how you see this combined with how the market is pricing as well considering the competition? Thank you very much.

Arturo Gutierrez: Thank you, Lucas. I'll turn it over to Jean Claude.

Jean Claude Tissot: Thank you, Arturo. Thank you, Lucas, for the question. Regarding pricing, as we have been sharing in other opportunities, we are very proud of our RGM capability. And RGM in the case of Mexico means about consistency - and consistency in four pillars that we have.

That is the tools that we have for our RGM strategy, the portfolio that we have and in portfolio, I would like to reinforce that the strategy is about affordability - and affordability that help us with profitability at the same time through returnables and how we are also promoting premium prices with some of our packages and brands.

And it is the feedback that we receive from our consumers and customers. That, obviously similar to what we are doing in U.S. and in the five countries, the focus on execution. Because it's not just to have an RGM strategy if you don't have the fundamentals at the point of sales. And we expect to continue to have prices above inflation and pricing is not just about the pricing, but it's the strategy and also how we are going to continue leveraging our tools and our promotional strategy to continue to have a price above inflation.

Arturo Gutierrez: So Lucas, it's important to see that considering those four elements that Jean Claude described, you can see how this is an example of how we combine technology and new tools with the human capabilities that we have. And that is when you really create a differentiation and a competitive advantage for the business. This is the strategy as we deploy also other technologies in our operation.

Lucas Ferreira, JP Morgan: Thank you very much, guys.

Arturo Gutierrez: Thank you, Lucas.

Operator: We will move next with Thiago Bortolucci with Goldman Sachs.

Thiago Bortolucci, Goldman Sachs: Yes, good morning, everyone. Thanks very much for the space. So my question is in innovation across the portfolio, not necessarily just in Mexico, right? In your opening remarks, you had a call out for Topo Chico and Coca-Cola without caffeine. Obviously, we know of the success of the rollout of Coca-Cola Zero Sugar. I know you're also piloting Sprite Zero Sugar.

My question is, when you take the global benchmarks across the Coca-Cola system, right, where do you think these new products and by new, I mean on top of the trademark Coca-Cola, what is the penetration

that this could get into your mix? And with this, I'm just trying to get some sense on how much growth -- incremental growth without cannibalization you could extract from the pipeline.

Arturo Gutierrez: Hello, Thiago, thank you for your question. We do believe innovation is going to bring significant growth in the future in our system. It's, as you know very important in the U.S. and North America in general. But also in Latin America, it will become an important source of growth in the future. I think the growth in our markets in Latin America in the next few years, probably 1/4, 1/3 of the growth should come from innovation, although it's not going to be maybe a significant part of the mix initially, but we come from a very small baseline.

We're moving more into the functional type of innovation in our markets rather than just, I would say, sensorial innovation that we've seen before in terms of flavors. And I would say that this is supported not only by our partnership with The Coca-Cola Company, but also by, I would say, the data from the consumers that we continue to improve on that, the capabilities in our supply chain and our ability to execute to manage the complexity that brings to the system.

We believe that growth through innovation will be granular. I mean it would be brand extensions, some seasonal launches, some things that will stay for a longer time. But at the end, I think strategically, the challenge it presents is that we need to be able to operate under a more complex environment going forward. And that is for what we have been preparing for in the last few years in terms of investment in supply chain and human capabilities and technology, et cetera.

Thiago Bortolucci, Goldman Sachs: Very helpful, thank you very much, Arturo.

Arturo Gutierrez: Thank you, Thiago.

Operator: Thank you. We will move next with Henrique Morello with Morgan Stanley. Please go ahead.

Henrique Morello, Morgan Stanley: Hi, everyone. Thank you so much for taking my question.

I just have a follow-up on the margin discussion from the start of the call. So if you could just give us an update on your hedges coverage and at what levels you are hedged for next year, so into 2027, that would be very helpful.

And still on that, I know it's hard to make predictions on this volatile market. But when you balance out your current hedges for next year versus what is happening in the spot market and what you have been doing in terms of efficiencies and pricing, et cetera, what are the biggest challenges or headwinds you see into next year in terms of profitability? And what you have been doing? And what are the tailwinds that can offset that and maybe keep margins more flattish or even expanding into a tough cost environment next year? So that's my question. Thank you very much.

Arturo Gutierrez: Thank you, Henrique. I will have Chuy explain to you our hedging situation, and then I will complement the comments with a general perspective on how we see that future. So go ahead.

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Jesus Garcia: Thank you, Arturo. And thank you, Henrique, for your question. During the third quarter, we continue to observe a certain amount of pressure, particularly on aluminum and PET costs. While we don't currently anticipate any supply disruptions, obviously the continued geopolitical uncertainty could maintain some pressure on costs during the coming quarter. We do also anticipate continued pressure in the short and medium term for fuel.

However in the future, if geopolitical tensions ease, we expect energy prices to take some time to adjust, but those levels will normalize. As we have shared with you before in the case of aluminum, we do have hedges in place that help mitigate part of this impact. Our LME exposure in Mexico and the U.S. are fully covered and 90% covered above 2025 levels, but well below current spot prices.

As far as the medium West premium requirements for the U.S., we have hedged 50% of those, also above last year, but below spot prices. There's no financial hedging instrument available for PET, but we do have supplier contracts in place across all of our operations, and these are designed to partially offset the current market price increases.

We believe that the impact has been mostly contained in the U.S. Those contractual mechanisms have helped limit cost increases. We see more meaningful increases in Mexico and South America, but those increases remain significantly below spot market levels.

We're obviously taking actions to control expenses to limit the impact. We do have a number of initiatives that are focused in generating good savings for us in the year. We have shared some of those with you before - the Wild West project in the U.S. that will start generating some savings by the end of this year, among many others, and obviously our continuous improvement initiatives.

We have secured 90% of the sugar needs in Peru at levels below 2025. We have also hedged around 90% of our fructose needs for the businesses, broadly in line with last year. And finally, we have hedged 100% of diesel needs in the U.S. for 2026 and 2027. So we are very comfortable with what we did for 2026, and we feel very confident in our hedge strategy moving forward.

Arturo Gutierrez: And Henrique, from a general perspective, as we look ahead to '27, we do expect a more stable landscape, hopefully, without some of the external impacts that we faced this year and supported by our pipeline of innovation, our capabilities, the investments in the marketplace. We remain cautious considering this volatile and inflationary cost environment. And we'll continue to focus on our RGM, our price architecture, cost control and efficiencies.

But in the case of Mexico, for example, we do expect a better macro environment. And that, together with improved fundamentals in our commercial processes, a very solid supply chain, this innovation pipeline and also capitalizing on the investments that we made, that is why we look optimistic at '27.

Henrique Morello, Morgan Stanley: That's very helpful color. Thanks so much.

Arturo Gutierrez: Thank you, Henrique.

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Operator: We will move next with Alejandro Fuchs with Itau.

Alejandro Fuchs, Itau: Thank you, operator. Good morning, Arturo, Emilio, Jean Claude, Jesus. Thank you for the space for questions. I just have one very quick one regarding South America. I wanted to see maybe Arturo, if you could also give us a little bit of your sense of what you expect maybe for the medium term, maybe next year, that we have a lot of moving parts in many of the countries with El Niño.

And then volume performance was very impressive in South America this quarter. I wanted to see if maybe you can dig a little bit into what's driving this strong performance.

Arturo Gutierrez: Yes. Thanks, Alejandro. Well, let me go through the different operations in South America. In Peru, as you saw, we grew the volumes significantly. That is leveraging our dual-core strategy that we talked before growing Coca-Cola and Inca Kola. We actually grew in every category, in every channel in that market.

We did have favorable weather and a better environment in terms of consumer confidence, and we capitalized on investments, particularly cold drink equipment investments. We've been increasing our reach in that market. Provinces in Peru have a tremendous opportunity going forward. So we expect this market to continue to perform really well. And looking at the -- just the perspective for the future, this is something we repeat over and over. We serve the same population in Peru than in Mexico and volumes in Mexico are more than three times the volumes that we have in Peru. So that gives you an idea of the size of the opportunity.

Ecuador is similar. The per capitas still present a significant opportunity there. The strategy of competitiveness in the portfolio and affordability has worked really well for us. We've been accelerating the growth in Stills. And this is one of the markets where we have scaled digital capabilities very effectively. We have 78% of digital mix in traditional trade in Ecuador. All of that has been supporting growth, and we believe there's still significant white space in that market and unlocking these opportunities for '27.

Argentina, probably a different story. Consumer demand remained under a lot of pressure, but we are seeing a more stable macroeconomic environment. We did have growth in the third quarter. We maintain our value leadership in the NARTD categories. That's very important. And we're focusing on single serve. That grew 3% in the quarter which is also super important.

We expect in the case of Argentina, I would say, a gradual recovery in volume in the third quarter. We're going to see a more favorable comparison base. The consumer environment remains challenging, but we do expect a recovery for '27.

With respect to El Niño which you referred to, these weather events do have some favorable impact in our business but also present some challenges. The advantage of this El Niño phenomenon is that we actually can anticipate some of the potential disruptions and activate mitigation measures to protect our infrastructure, our people, our supply chain in general and maintain the business continuity and service levels throughout early next year.

Alejandro Fuchs, Itau: Super clear. Muchas gracias, Arturo.

Arturo Gutierrez: Gracias, thank you, Alejandro.

Operator: Thank you. We'll move next with Alvaro Garcia with BTG. Please go ahead.

Alvaro Garcia, BTG: Hey, gentlemen. Thank you for the space for questions. Two questions. One on Wild West in the U.S. I was wondering if you could perhaps provide an update as to the outlook for that plan.

And 2, I know you don't give specific guidance on, let's say, the magnitude of investments around digital capabilities, whether it be in CapEx or SG&A. But I was wondering if you could perhaps comment on the degree to which that could potentially come down going forward, or maybe perhaps not. But I guess, yes, directionally, it would be great to hear your thoughts on how we should think return on those investments and whether those investments should increase going forward. Thank you.

Arturo Gutierrez: Right. I'll turn it over to Jean Claude to talk about Wild West.

Jean-Claude Tissot: Thank you, Arturo. Wild West -- very proud to share with you that we started with our San Antonio facility. Actually, we had the opening events like two weeks ago. As you know the Wild West project is what we are doing in our San Antonio facility, our Dallas-Fort facility that is going to be the most modern facility in the U.S., thinking about what we are doing from supply and in the warehouse and the new warehouse that we are building in Oklahoma.

We are going to see the benefits of the Wild West project at the second half of next year and fully embedded in our P&L for 2028. What is the strategy behind the Wild West project is that it's going to allow us to continue expanding our transactions. It is going to give us more flexibility with our immediate consumption and transaction packages, a flexibility that we have opportunities to improve right now. And that is the strategy and the status of that project.

Arturo Gutierrez: And Alvaro, with respect to digital, it's a very broad agenda what we are doing. This includes all of the work we're doing at Digital Nest here in Monterrey, plus a number of different investments and specific use cases. I would say that any CapEx related to that is, it's part of the CapEx that we've been talking about and the levels of CapEx that we've had historically and going forward.

We are going to have some very particular use cases where we're going to track the return on investment for those projects. And we're going to start exploring also Agentic AI solutions for our business early next year. We're launching the project now. And that definitely is going to bring significant productivity, we believe, to some of our core processes, but we don't have specific business cases for those yet. So I think it's certainly an upside for our business going forward and continue to capture those opportunities.

We are, at the same time strengthening the foundations to be a more digitized enterprise in terms of digital and AI literacy of our leadership, responsible AI governance, cybersecurity, et cetera.

Alvaro Garcia, BTG: Wonderful. Thank you very much.

Arturo Gutierrez: Thank you, Alvaro.

Operator: Thank you. We will move next with from Antonio Hernandez with Actinver. Please go ahead.

Antonio Hernandez, Actinver: Hi, good morning. Congrats on your results. Well you already mentioned hedges and cost perspective and so on. But I wanted to get a sense on SG&A expectations going forward, especially given higher labor costs expected next year, also as logistics costs around the industry having raised -- having grown quite a lot as well. So any feedback on SG&A. Thanks.

Arturo Gutierrez: Emilio?

Emilio Marcos: Yes. Thank you for your question, Antonio. Yes. We had an increase on our ratio of OpEx. We closed the quarter with 32.4% which is 110 basis points higher than the first nine months of the year. We have implemented, as Jesus mentioned, some productivity and saving programs. Some of this increase are mainly driven by higher depreciation.

As we have mentioned also, we have increased our CapEx investment in the past years. So that's reflected on the OpEx. And it also has some planned system upgrades aligned with the needs of our operations. So that makes OpEx a little bit higher than previous year. But we should end the year with a ratio around 32%. And that's for this year and also with that what we expect for next year -- 32% OpEx to sales ratio.

Antonio Hernandez, Actinver: Perfect, thanks. That's very helpful. Have a nice day.

Arturo Gutierrez: Thank you, Antonio.

Operator: We will move next with Kevin Zavala with UBS.

Kevin Zavala, UBS: Hello, everyone, hi Arturo and Emilio. So just want to hear from you about the capital allocation. The levels are very low. So just to understand how you approach to increasing dividend distribution or perhaps potential M&A.

Arturo Gutierrez: Emilio?

Emilio Marcos: Yes. Thank you, Kevin, for the question. Yes. Well, we keep the same priorities as historically. First, CapEx, as we mentioned this year, we plan to close the year in a range from 6% to 7% of CapEx to sales ratio. We have invested a little bit more in the past two years, and we expect next year to lower that ratio to 5% to 6% in a couple of years.

Second, dividends. You know that we have a dividend policy. As we mentioned, we paid an ordinary dividend of MXN 4.28 on April. And then we have paid two extraordinary dividends, one in August of MXN 2.50 per share and the second one just two days ago of MXN 2.00 per share.

So together with the ordinary dividend, the cash distribution -- total cash distribution was MXN 8.78 per share, representing 77% of retained earnings. We don't see any additional payment for this year.

And third, M&A, we -- as you know we continue evaluating value creation opportunities to grow inorganically. So basically, those are the three main priorities talking about capital allocation.

Kevin Zavala, UBS: Thank you very much.

Arturo Gutierrez: Thank you, Kevin.

Operator: Thank you. We will move next with Fernando Olvera with Bank of America. Please go ahead.

Fernando Olvera, Bank of America: Hi, good morning, guys. Thanks for taking my question. Just a quick one. If you can comment what caused the increase in net interest expenses. Just wondering if it was the bond you issued or was there something else? And if this is the new level of interest that we should consider going forward?

Arturo Gutierrez: Thank you, Fernando, for your question. Good to talk to you. I will turn it over to Emilio.

Emilio Marcos: Yes. Thank you for the question, Fernando. I think it's important, everyone to understand this because it has an important impact on our net profit. So we have basically three reasons why the comprehensive financing result is higher than previous year. The first one and the biggest one is a non-cash foreign exchange loss resulting from the depreciation of the Mexican peso due to our U.S. dollar debt in Mexico. So the difference in the quarter, it's a non-cash impact of almost MXN 600 million in the quarter.

The second one is the decrease in the financial income reflected lower interest rates and lower cash balance. So that's around MXN 150 million.

And the third one is the financial expenses which is the lowest. And it's also -- main of that is the one-time financial fees and expenses that we have registered in that concept of around MXN 100 million.

So as you can see, the main one is based on the U.S. dollar/peso depreciation in the quarter and the same for the year, basically the three concepts.

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

Arturo Gutierrez: Thank you, Fernando.

Operator: We will move next with Henrique Brustolin with Bradesco.

Henrique Brustolin, Bradesco: Hello, everyone. Thanks for taking my question. My question is about the volumes in Mexico. It would be great to get your assessment on the consumer environment there. We saw

right? Arca Q3 volumes going back to growth. So how do you assess the performance through the quarter? And how do you see the growth we are seeing?

How much of that is the share gains versus the overall industry performance? And how -- what you are seeing right now shapes your outlook, your view for 2027 as well? That would be very helpful.

Jean Claude Tissot: Thank you, Henrique. If we go back at the beginning of the year with the challenges that we were going to face in Mexico with the taxes, no one was expecting that this year was going to be so positive. And the main reason is the strategy that we implemented with our RGM initiative that we already explained, all this focus that we have on our digital initiatives and improvement of execution.

If we go to the results in terms of value share in Mexico, we have a positive trend, especially in Stills and in Water as well. This with the new innovation that we have with Topo Chico and Coca-Cola Caffeine Free that is going to help us as well.

Then as we already explained, we expect that for the coming years with the level of investment that we have been doing, the focus that we have on the fundamentals and the digital initiatives that we are going to continue with the current performance.

Arturo Gutierrez: So we think, Henrique, as we compare '26 with 2014 which was the year in which we had a similar situation of passing through a big tax increase. We think this has been a great year, and that reflects the better capabilities that we have now and that positions us to capture future opportunities, both in the core categories and the pipeline that Jean Claude was referring to. So we are very happy with the results for this year.

Henrique Brustolin, Bradesco: Very clear, thank you very much.

Arturo Gutierrez: Thank you, Henrique.

Operator: We will move next with Emiliano Hernandez with GBM.

Emiliano Hernandez, GBM: Congrats on results. Just a follow-up in Mexico. Could you provide additional color on the trends across channels, particularly on-premise versus off-premise? And also just quickly on snacks in the U.S., we saw a strong margin contraction despite solid sales growth. Could you elaborate a little bit more on the main factors behind this?

Arturo Gutierrez: Yes. Jean Claude, go ahead.

Jean-Claude Tissot: Then regarding the first question about the trend across channel, we had a very positive quarter at the year, much better as original expectation in all channels. We are improving in modern channel, capturing the growth of this channel with a similar strategy and focus as we have in the U.S. that is about SOVI and fill rate. Those are like the two key metrics that we need to track on our modern

channel and that we have been improving. Also that we work very closely with The Coca-Cola Company in terms of the relationship with our main customers.

Traditional channel based on our fundamentals of digitalization for our customers, the investment that we have been doing in coolers and the focus on returnables, also, we are capturing a positive trend in the traditional channel.

In terms of snacks, we have solid results in Bokados and in Inalecsa in Ecuador. Wise in the U.S. and the snack business and category is under stress. It's under stress because the consumer situation and it's a challenging environment that we are facing.

Arturo Gutierrez: We've been focusing on strengthening brand awareness, especially the expansion of Deep River which is our strongest brand in the U.S. But certainly, the result has been mixed across businesses. Wise is a very, very small portion of our overall portfolio, but we're going to continue to focus on portfolio profitability, same playbook, price-pack architecture as in our core business, personal sized formats in that market. Thank you, Emiliano.

Operator: This concludes today's Q&A portion. I will turn the call back to Arturo Gutierrez for any additional and closing remarks.

Arturo Gutierrez: Thank you. We appreciate your time today and your continued engagement with Arca Continental. Should you have any additional questions, our Investor Relations team remains available to assist you. We wish you a successful close to the year and we look forward to speaking with you again following our fourth quarter results. Have a good day.

Operator: Thank you. This brings us to the end of today's meeting. We appreciate your time and participation. You may now disconnect.

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