Coca-Cola FEMSA Fourth Quarter 2023 Conference Call

Thursday, 22ND February 2024

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Participants

Jorge Collazo – Director of Investor Relations

Ian Craig – CEO

Gerardo Cruz – CFO

Operator: Hello and welcome to Coca-Cola FEMSA Fourth Quarter 2023 Conference Call. My name is Melissa and I'll be your coordinator for today's event. Please note this conference is being recorded and for the duration of the call, your lines will be in a listen-only mode.

However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you'll be connected to an operator.

I'll now turn the call over to Jorge Collazo, Director of Investor Relations for Coca-Cola FEMSA. Please go ahead, sir.

Jorge Collazo: Good morning, everyone. Welcome to our conference call to review our fourth quarter and full year 2023 results. With me this morning is Ian Craig, our Chief Executive Officer, Gerardo Cruz, our Chief Financial Officer, and the rest of the investor relations team.

After prepared remarks, we will open up the call to take your questions. We ask that in the interest of time, you make your most present question first and then re-enter the queue in case you have more than one question.

Before we proceed, I'd like to remind all participants to take note of a cautionary statement included in our earnings release. This conference call may include forward-looking statements and should be considered as good faith estimates made by the company. These forward-looking statements reflect management's expectations that are based upon currently available data. Actual results are subject to future events and uncertainties that can materially impact the company's performance.

With that, let me turn the call over to our CEO. Please go ahead, Ian.

Ian Craig: Thank you, Jorge. Good morning, everyone. We appreciate you joining us today. 2023 was an outstanding year for Coca-Cola FEMSA. We not only achieved positive results, but also laid the foundation for our company's sustainable long-term growth model.

As we have discussed in previous calls, we defined and implemented six strategic priorities that guide us to capture the many opportunities that are ahead of us. I am confident that we are making important progress across these pillars from accelerating the growth of our core business to the rollout of our B2B platform through those floors.

We are also making significant progress regarding culture. As we foster an empowered organization with the necessary customer centricity and the psychological safety that allows our teams to challenge the status quo while passionately serving our customers.

During today's call, I will review our fourth quarter results and recap key highlights of the year across our operation. I will also provide you with a brief outlook of our initiatives for 2024 as we remain confident in our short and long-term positive moments.

Finally, before taking your questions, I will pass the call on to Gerry to expand on our quarterly results across our divisions and provide you with an adequate update on our savings initiatives.

With that, let us begin by summarising our consolidated results for the fourth quarter. Volume grew 6. 1% year on year reaching 1. 06 billion unit cases. This increase was driven mainly by the positive performance achieved in our Mexico, Brazil, Guatemala, Colombia, and Central American territories, which offset a slight volume decline in Argentina, and Uruguay. Excluding the integration of the crystal bulk water business in Mexico, consolidated volumes increased 5. 1%.

Regarding category performance, we're pleased to report growth across the board. Sparkling beverage volumes grew 4. 6%, driven mainly by brand Coca-Cola, which achieved 6. 2% growth. Steel beverages grew 7. 8%, and bottled water grew 10. 3%.

As a Coca-Cola company highlighted during the recent earnings call. We strengthened our value share position during the year driven by a turnaround in shared trends in Mexico, as well as share gains across all of our other operations except for Panama. As we leverage our growth the core pillar and joint marketing and execution capabilities.

Total revenues for the quarter grew 8% reaching 66. 1 billion pesos. Driven mainly by solid volume growth that offset unfavorable currency translation headwinds related to the appreciation of the Mexican peso. On a currency-neutral basis, our total revenues increased a solid 15. 7%. Gross profit increased 12. 6% to 30. 5 billion pesos leading to a gross margin expansion of 190 basis points to reach 46. 1%. This increase was driven mainly by our top-line performance, declining packaging costs, and the appreciation of most of our operating currencies as compared with the US dollar. These effects offset headwinds driven by higher sweetener costs across our operation.

Our operating income increased 7. 3% to 9. 7 billion pesos and operating margin contracted 10 basis points to 14. 6%. This performance reflected strong top-line growth, partially offset by increases in operating expenses such as labor, marketing, and maintenance. We also registered a lower operating foreign exchange gain as compared with the previous year, which was driven by the significant appreciation of the Mexican peso during the previous year.

Importantly, during the quarter, we incurred temporary additional freight and other expenses related to the shipment of finished products into Guerrero resulting from Hurricane Otis's impact on the region. Excluding these one-time expenses, our consolidating operating margin expanded 30 basis points.

In relation to Guerrero, we announced an investment, an eight package worth 575 million pesos to support the region's recovery. As a result of well-established response protocols, we not only provided support to our team and communities in Acapulco, but also our regional production facility in Guerrero is now operating normally. We're confident that with our coordinated support of the private sector, local and federal authorities, Acapulco will continue its rapid recovery.

Adjusted EBITDA for the quarter increased 10% to reach 13. 1 billion pesos and EBITDA margin expanded 40 basis points to reach 19. 9%. Finally, our majority net income declined 24. 5% to reach 5. 4 billion pesos. This decrease was driven mainly by a base effect of a lower effective tax rate during the same period of the previous year. By normalising this effect, our majority net income increased 8. 6%.

In summary, our 2023 results were outstanding. Full-year volumes increased across all of our territories, surpassing the milestone of 4. 05 billion NARTD unit cases for the first time in Coca-Cola FEMSA's history. The volume growth achieved this year represented 44% of the Coca-Cola systems worldwide volume growth in 2023.

Our full-year top line of 245. 1 billion pesos operating income of 34. 2 billion pesos and adjusted EBITDA of 46. 4 billion pesos also represented new benchmarks for our company. To support these results, we invested a record CapEx of 21. 4 billion pesos representing 8. 7% of revenues. These investments will enable us to continue adding the necessary capacity to support our growth ambition.

Now, let me expand on our operations highlights for 2023. In Mexico, we continue to see a resilient consumer environment. The macroeconomic backdrop for consumption remains favorable as evidenced by the number of jobs registered with a Mexican Social Security Institute reaching a new record of 22. 1 million jobs. Additionally, the average base salary registered an annual increase of 10. 4% the second highest In the last 23 years.

Our volumes for the full year in Mexico increased 8. 7%, reaching 2. 05 billion unit cases. A historic record for our Mexico operation. Our focus on growing the core business, expanding our consumer base, mainly drove this growth.

To give you a sense of the magnitude, our team in Mexico added more than 47,000 new customers during the year, expanding our traditional trade customer base by 7% year on year to reach more than 720,000 clients. Consistent with our priorities for Mexico in 2023, we achieved positive share performance across nearly all or non-alcoholic ready-to-drink categories, driven mainly by gaining the sparkling, energy, and, sports drinks categories.

Additionally, aligned with our efforts to measure and standardise customer service KPIs across our operations, Mexico improved both its customer service and delivery service metrics.

Finally, we closed the year serving more than 512,000 monthly active purchasers through Juntos Plus our digital B2B platform reaching 70% of our traditional trade customers in Mexico. Importantly, we began the rollout of version 4. 0 of Juntos Plus during the first quarter of 2024, adding new features and significantly improving customer experience and performance.

Moving on to Guatemala, our volume for the year grew a solid 18. 4% reaching 174 million unit cases. This marks the sixth consecutive year of double-digit volume growth. To give you a sense of the magnitude on a comparable basis, volume in Guatemala is two times the volume of 2017. We see plenty of opportunities for continuous growth in Guatemala, driven by our initiatives to grow the core, expand the customer base, and tap into opportunities in profitable steel beverage categories.

Notably, the country remains a fertile ground for these strategies as it enjoys a stable macro-environment and favorable demographics marked by the youngest population in Latin America with a median age of 24. 4 years.

Moving further down south to South America. In Brazil, our team continues to deliver solid results. We have consistently grown our volumes and strengthened our competitive position over the past five years. Our initiatives to grow the core continue to exceed expectations. For instance, Coca-Cola zero sugar grew 28% versus a previous year while we increased our single-serve mix by one percentage point to reach 24. 3%. Our focus on capitalizing on profitable emerging beverage categories led energy to grow 19% sports drinks 28% and users 16% year on year.

Aligned with our strategic priority of the bottleneck, our infrastructure, our supply chain team installed four new lines in Brazil, representing an additional 75 million unit cases of capacity per year. That will enable our operation to reduce, raise, cost, minimize, and availability, and optimize service levels.

Additionally, in 2023, Coca-Cola FEMSA of Brazil was awarded first place in the Advantage survey as a top modern trade supplier to ABRAS, the Brazilian Supermarket Association. This award reflects the unwavering commitment of our team to service our customer with excellence.

Finally, our team in Brazil did an outstanding job in scaling version 4. 0, the Juntos Plus app. As we mentioned in our previous call, this enhanced version significantly improves customer experience and performance.

In Colombia. Our customer-centricity enabled us to successfully navigate at the dynamic environment. During the year, our volume increased 5. 3% year on year to reach 347 million unit cases. A new record for this operation.

Notably, our team expanded our customer base by 17,000 customers, a 4% increase versus a previous year reaching 480,000 clients.

We also improved service and availability to record levels and accelerate the rollout of our digital platform. Today, Juntos Plus serves more than 223,000 active monthly purchasers in Colombia with 20% of total orders now being done digitally.

Finally, despite the uncertain environment, our volumes in Argentina increased 2. 7% during 2023. Aligned with our expectations, we saw a challenging consumer environment during the fourth quarter that ultimately led to a 1% volume declining set period. However, throughout the year, our team in Argentina was able to leverage our single-serve mix and affordability to achieve 2. 6% growth in single-serve mix and a two percentage point increase in household penetration of returnable presentations.

We remain confident that we have the right team joint capabilities with a Coca-Cola company and a resilient business model to manage our operation in Argentina under difficult conditions.

As we move on to 2024, we remain confident in our team's ability to continue executing our strategy, leveraging growth drivers across our rights to win in our footprint. In particular, we expect to focus on three key drivers in 2024, first build on the growth momentum of our core business. Second, take Juntos Plus version 4. 0 to the next level with the deployment of advanced AI capabilities, and third, continue fostering a customer-centric and psychologically safe culture. For Coca-Cola films.

For instance, regarding the momentum in our core business, we have laid out robust plans across our operations to continue strengthening our competitive positions, tapping into per capita opportunities, and continue exploring white spaces in profitable non-carbonated beverages.

Regarding Juntos Plus, we are very encouraged by the early results that our tests have shown, leveraging cutting-edge AI engines for recommendation systems, personalized promos, and dynamic pricing among others.

We expect to deploy these capabilities in Mexico and Brazil during this first quarter and scale them throughout the year. Moreover, we expect to finish the rollout of version 4. 0 of our app in Mexico, Central America, Columbia, and Guatemala all during this year.

Finally, regarding culture, we have refreshed our vision and established the leadership principles that will guide the culture, and we are working in our organization which we are deploying across the company this year. With that, I will hand the call over to Gery.

Gerardo Cruz: Thank you, Ian, and good morning to you all. Expanding on our division's results for the quarter in Mexico and Central America, volumes increased 6% reaching 581 million unit cases. As we continue to see solid volume performance across the division.

Excluding the integration of Crystal's bulk water business, our volume in the division grew 4. 2%. Revenues in Mexico and Central America increased 11. 3% to 37. 6 billion pesos driven mainly by volume growth and partially offset by an unfavorable translation effects from most Central American currencies into Mexican pesos.

Our growth profit increased 17. 5% to reach 18. 4 billion pesos resulting in a gross margin of 49%, a 260 basis point expansion year on year. We continue to see sequential improvement in profitability as our top-line growth. The appreciation of the Mexican peso and declining packaging costs were partially offset by higher sugar prices in most territories in the division.

Operating income increased 7. 8% to 5. 6 billion pesos driven mainly by solid gross profit performance. Our operating margin had a 50 basis point margin contraction to 14. 9%, driven mainly by an increase in operating expenses such as labor maintenance and marketing.

This quarter, we also incurred temporary freight expenses to deliver finished product to Guerrero as a result of the impact of Hurricane Otis. As Ian previously mentioned. Excluding these effects, our operating margin would have expanded 10 basis points. Finally, our adjusted EBDTA in the division grew 11. 6% with margin expanding 10 basis points to reach 20. 5%.

Now, moving on to South America. Volumes for the quarter increased 6. 2% to 475 million unit cases. During the quarter, we continued to see a solid performance in Brazil and Colombia with volume increasing 7. 5 and 7. 6% respectively. This growth was partially offset by a 1% volume decline in Argentina and a 2. 1% decline in Holloway.

Our revenues for South America division increased 3. 8% to 28. 5 billion pesos. As our volumes and revenue management initiatives were partially offset by unfavorable currency translation effects into Mexican pesos. To give you a sense of the magnitude of this currency headwind, when excluding currency translation, our total revenues in South America increased 19. 5%.

Gross profit in the division increased 5. 8% or 24. 3% on a currency-neutral basis leading to a margin expansion of 90 basis points. Volume growth, favorable mix, and easing raw material costs mainly drove this increase, which was partially offset by increased sugar costs in the depreciation of the Argentine peso as applied to our US dollar-denominated raw materials.

Operating income for the division increased 6. 7% to 4. 1 billion pesos on a currency-neutral basis, operating income increased 23. 6% and operating margin expanded 40 basis points to 14. 3%. This increase was driven mainly by our gross profit growth and operating expense efficiency.

Finally, adjusted EBITDA in South America increased 7. 8% to 5. 4 billion pesos, or 28. 3% on a currency-neutral basis. Moving on, our comprehensive financial result recorded an increase during the quarter. This was mainly driven by a lower gain in monetary position and inflationary subsidiaries and the decrease in our interest income.

These two factors were mainly related to the significant depreciation of the Argentine peso during the quarter. Additionally, we recorded a higher foreign exchange loss as our net debt exposure in US dollars was negatively impacted by the appreciation of the Mexican peso and the other operating currencies during the quarter. These effects were partially offset by higher gain and financial instruments, and the decrease in our interest expense, mainly related to the maturity of a 7. 5 billion Mexican peso-denominated bond.

Finally, aligned with the financial priorities that we announced at the beginning of 2023, throughout the year, we continue to focus on reinvesting in the business to support our long-term strategic vision to deliver sustainable growth.

Aligned with this strategy during 2023, we invested 8. 7% of CapEx percentage of sales. As we previously mentioned, we expect to increase our production capacity by 15% and warehouse capacity by 30% over the next three years.

Beyond these investments, we will continue to focus on increasing productivity and achieving significant savings across our supply chain. These initiatives were fundamental during 2023 as our team exceeded supply chain savings to reach $80 million. Significantly mitigating margin pressures that helped us achieve our target resilient market margins for the year.

For 2024, our teams targets at least an additional $60 million in cost to make cost-to-serve and primary freight efficiencies. With that operator, we are ready to open the call for questions.

Operator: Thank you very much. As a reminder, if you'd like to ask a question on today's call, please press star one on your telephone keypad to register your question. If you'd like to withdraw your question for any reason, may press star two. You will be advised when to ask your question. Our first question is from Felipe Ucros of Scotiabank. Please go ahead.

Felipe Ucros: Thank you, operator, and good morning, everyone, and Gerry and team. Thanks for the space. first in digital pretty impressive growth this year again. I think you're still drawing monthly active users above 30% and digital sales doubled so clearly a higher ticket per client, which is exactly what you want to see. just wondering how all this journey has changed your initial assumptions about where the B2B effort could go. If you compare what you thought in early 2020 versus what you think now, how has the strategy evolved?

Jorge Collazo: Hello, Felipe how are you? Thank you for your question. You mentioned the results have been very good, and I think if I compare it to our initial assessments, what's really going to change is probably what we'll do this year.

I think in our initial assessments when we were looking at this in 2019 and 2020, we really weren't focused on using cutting-edge AI, and the team has been working in the growth office and developing three cutting-edge engines and those we are deploying this quarter in Mexico and Brazil, and we'll see how that scale, and I would say that's the one part that we didn't have in our original roadmap.

Otherwise we went into this knowing that it was something that we needed to do, that it was how the business was going to evolve, but we didn't have that much clarity on the adoption rate of this solution. But so far so good there's been a lot of learning, It's been a very nice journey, but I think the one part that we hadn't foreseen at the beginning was this AI push that we're now going to put in for personalization, for pricing and promotions, images and other aspects that we're very excited about it, and we'll see how it scales this year.

Felipe Ucros: Very clear, I can do a very short follow-up on pricing discipline and pressure across markets. We saw what happened with PepsiCo and Carrefour in Europe, so just wondering how the tone of negotiations for price increases is progressing across the regions as you talk to modern retailers. I guess also the reaction from the competition on pricing, if you can comment on those fronts, that would be great.

Ian Craig: I think Felipe we've been very clear that we're focusing on a sustainable growth model, and we're moving away from practices of pushing pricing and really here we're looking for sustainable growth in a relative competitive position, and that brings us to reasonable pricing dynamics and so far we haven't had any issues in that regard.

We are improving how our average price looks basically through RGM strategies and price mix adjustments, but the pricing that we're pushing through, we've always made sure that it keeps improving our relative competitive position in all of our operations. So it hasn't been an issue.

Felipe Ucros: Thank you.

Operator: Thank you very much. Our next question is from Alvaro Garcia of BTG Pactual. Please go ahead.

Alvaro Garcia: Hi, gentlemen. Congrats on results. Thanks for the space for questions. Two questions. The first on-channel breakdown in Mexico, we've seen a lot of CPG companies talking about a very strong modern trade, and I'm just curious if you're seeing some weakness out of the traditional trade, or maybe that's not the case for you.

Then my second question is on returnable presentations. I was just wondering if you can comment on sort of the longer term dynamics of glass returnables versus PET returnables and how much PET has grown in that mix, and how much you expect it to represent in the future. Thank you very much.

Ian Craig: Hello, Alvaro. Thank you for the question. Regarding channel mix, we are seeing more aggressive growth from the modern channel in Mexico, but which was, I would say was and is underpenetrated by the modern trade as compared to other countries.

So I think it's very reasonable to continue to expect outperformance in modern trade in Mexico. That being said, we are not seeing weakness in that traditional trade. Our traditional channel is doing very well, It's growing 5. 3% versus prior year around those figures if I remember correctly. So it's not an instance of weakness in the traditional channel, but rather outperformance from modern trade. I don't recall the last question correctly if you can take it, please? I don't remember what it was.

Gerardo Cruz: Yes, sure Ian. Regarding returnable, this is something that of course is very important for our revenue management strategies, Alvaro, across our territories in particular for example, Ian highlighted in Argentina how we have been able to increase household penetration of returnables recently, which of course, in the current environment is very important. Having said that, we have a very balanced strategy regarding the mix of returnables.

We continue to see the multi-serve returnables in larger formats, PET formats like the 2. 5 liters, 3 liter presentations in Mexico being very important as part of our turnaround strategy in sharing Mexico as well. But we do that as well, segmenting our customers. The returnable glass that you mentioned is very important for the cold channel in Brazil, for example, is very important for the on-premise channel in Mexico. So all in all, it's part of an overall strategy that helps us segment our consumers. I don't know, Ian, if you want to add on something or you

Ian Craig: I think you explained correct.

Gerardo Cruz: Thank you. Alvaro.

Alvaro Garcia: Thank you, guys.

Operator: Thank you very much. Our next questions from Fernando Olvera of Bank of America. Please go ahead.

Fernando Olvera: Hi, good morning. Thanks for taking my questions. Sorry if I missed it, but can you comment what is your outlook and volume mainly on markets like Mexico and Brazil, and very quickly in Mexico what is your outlook and cost this year considering the strength of the peso? Thank you.

Jorge Collazo: Thank you, Fer. How are you? It's Jorge. Regarding our outlook fair, I would say in in general terms, as Ian mentioned, no building on his comments. We are very optimistic on the short-term momentum that we have across our markets.

Mexico, of course, have a very positive 2023, and with the start of the year actually has continued in those positive trends. So we are envisioning something for the company for volumes that should be close to the mid-single B8 range for growth in volumes. Mexico, I would say it's pretty much in that regard for the outlook. Brazil also, we continue to be very optimistic about the outlook. We also had a very strong finish of 2023, similar to Mexico, obviously favored by very favorable weather.

We're seeing strong demand in Brazil, so the outlook, I would say fair is positive. That's the big picture of the plan that we have. Obviously on the other hand we have to recognize that it's a dynamic environment. No, it will always come with different challenges in particular Argentina as is expected.

And as Ian mentioned in the prepared remarks, we started to see a deceleration in volume performance during the fourth quarter and we continue to see that during the start of the year, but it's in line with the expectations for currently, actually we do expect to see in Argentina tougher first half of the year, and then towards the second half of the year, we expect to start seeing a gradual sequential improvement. I don't know for the outlook that answers your question before passing it out to Gerardo for costs.

Fernando Olvera: Yes. Thanks so much, Jorge.

Jorge Collazo: Thank you, passing it out to Gerardo

Gerardo Cruz: Regarding costs Fernando, we're certainly seeing a more benign scenario in terms of commodities prices specifically packaging, what is still something that we expect to continue having as a pressure for our P&L as we move forward with the sugar. Although it's come down slightly during the start of the year we certainly see an impact as compared to the previous year, a significant impact so that will continue to be a focus for us to see how we can mitigate the impact of sugar prices.

Having said that, we have a pretty healthy hedge position for our P&L for 24 on most of our hedgeable raw materials. So we feel very confident that we will be able to deliver good performance throughout the year.

Jorge Collazo: Thank you, Gerardo.

Operator: Thank you very much. Our next question is from Luis Willard of GBM. Please go ahead.

Luis Willard: Hi guys, good morning. Thanks for taking the question. Thank you for your comments about the acceleration of Juntos Plus. So I was wondering if you could comment perhaps at a conceptual level, how does this acceleration place in the context of the long-term corporation agreement with Coca-Cola Company?

In particular, if I understand correctly, digital was a relevant part of the discussions, so evolving in the context of this framework going forward, do you see any potential adjustments to the negotiations, to the agreement? Is it working better than what you discussed with Coca-Cola at the time? Any comment would be helpful. Thank you.

Gerardo Cruz: Hello Luis, I think the long-term relationship framework that we have with Coca-Cola has given us the visibility that we need to have great confidence in investing behind a business. And as you've seen, as we've done in capacity and also part of those investments are what we're doing in digital.

I would put the investments that we're doing in digital and Juntos Plus as part of the larger context of having a framework that gives us the adequate visibility on the estimated returns that we can generate on our investments in the business. So it's nothing specific to digital, but it's much wider than the digital piece but it helps us get the same visibility that we need, that the investments on digital are going to give us the adequate returns.

I wouldn't say it's particular to digital or that there is any adjustment there, but rather that as with the investments in capacity, it also gives us confidence to invest behind digital, which is a key with our second pillar in our business strategy. So I would put it more as part of the general context, it helps us have that same confidence on investing behind digital Luis.

Luis Willard: So, you see better results in Juntos Plus and that's given a certain level of investment. So we would say that the rate of return on that investment is at this point better than what you previously thought of.

If that is correct, do you see Cola-Cola approaching yourselves to adjust something in terms of the level of investments or the prices or anything else that might affect or that might need to be renegotiated?

Gerardo Cruz: Not really, Luis. I don't see that being a trigger as usually has been the case. Our relationship with the Coca-Cola companies is great. They're always seeking to go invest when it helps accelerate the business or give us support when they see practices that can help accelerate results.

But nothing in structural terms really on case-by-case basis. I would put this as positive contributions from their side when they want to accelerate certain capabilities and we jointly co-invest behind them. I don't see changes in the long-term relationship framework due to adjustments in the mix of our channel structure between physical and digital. I don't foresee that please,

Luis Willard: Sounds very clear. Thank you guys.

Gerardo Cruz: Thank you, Luis.

Operator: Thanks very much. Our next question is from Camila Azevedo of UBS. Please go ahead.

Camila Azevedo: Hi gentlemen. Thank you for taking my question and congrats on the results. My question is regarding Brazil beer. So Nielsen data shows that Eisenbahn sales decreased high single digits in 2023 while you reported growth in the concurrency. Maybe could you give us more color on the performance by brand and just curious to understand what is driving this difference? Thank you.

Jorge Collazo: Hi, Camilla, how are you? It's Jorge, and thank you for the question. Let me first start with a disclaimer that we are very limited on what we can comment by brand. No, obviously that's part of the relationship that we have agreed upon with Heineken, and also as you may understand from a competitive position we're very limited.

Having said that Camila, I would link your question to the beer question that happened in the previous earnings call, and I think that explains overall the kind of performance that we saw in Brazil beer during all of 2023. As you can see on the revenues that we disclose in reality, you do the calculations and as we have mentioned, our portfolio has been relatively stable during 2023 with regards to volume and with regards to share more or less.

There are certain brands definitely that are performing better within their own segment. So the economy brands, for example, are ones that are gaining share, however, they are participating in a part of the Brazil beer segment that is getting smaller so it's shrinking.

Eisenbahn in particular, it's a brand that we of course received with a new agreement we have with Heineken and we are focusing on expanding coverage. It's not easy as competitive as Brazil is within the beer segment, it's not an easy fit.

However, Camilla, we do expect to see an improvement next year. We have a robust plan to working together with Heineken and our team in Brazil has a plan in place to start turning that around. I don't know if that gives you a little bit of color, but in reality, what summarizing is that Eisenbahn, we are repositioning it as a more premium brand within our portfolio. However, premium is highly competitive. It's very competitive, it's stuff, and takes time. So that's a little bit of the performance. Camilla, I don't know if that answers your question.

Camila Azevedo: Yes, it surely helps. Thank you very much, Jorge.

Jorge Collazo: Thank you, Camilla.

Operator: Thank you very much. As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad to register your question. Our next question is from Ulises Argote, JP Morgan, please go ahead.

Ulises Argote: Hi guys, good morning. Thanks for the space for questions here. So just a couple of quick ones here. Related to CapEx expectations for 2024, can you comment there a little bit on how that is kind of shaping up and maybe over the next couple of years as well? And how those investments and projects look like across for the different regions for you guys.

And then the second one just related a little bit to competition in Mexico. So obviously you've been gaining back some of the market share here. Have you seen any reaction from competitors? Is there anything kind of work flagging on that sense? Thank you.

Gerardo Cruz: Hi, this is Gerardo, regarding investments as we have been talking to you guys about during the last year, and this is one of our biggest focuses, sustainable growth Ian mentioned it. For that, we are requiring capacity and basically, for the next three years, we are expecting to increase our manufacturing capacity by 15% distribution capacity by around 30%.

This is just investing in lines through our markets with big focus on our biggest four, Mexico, Brazil, Colombia, and Guatemala. But throughout the company, we're investing heavily, we expect that our CapEx as percentage of sales remains between 8 to 9% until 2026, and then starts coming back to our usual investment levels. That's our projection right now, and this is to support what we've been seeing in growth not only growth that we're expecting going forward, but also underserved markets that we're seeing currently.

We have out of stocks due to capacity limitations so we are investing to solve that and support the growth that we're seeing across the operations. Just to give you a little bit more color in terms of new lines, our plan for this year was to put in five new lines and a sixth line that's line that we moved from one plant to another that wasn't in production last year. So our plan was to put in six new lines that would go start working this year. The response that we're seeing so far, we're thinking of probably investing in another three lines.

I'm bringing those investments that were in our long-term plan for next year, bringing those forward to this year. So the growth model and the growth algorithm that we've co-developed with the Coca-Cola company is working, and we should be investing as well in additional distribution centers probably around six new distribution centers as well.

So the investment you leases is going to be there precisely to support our growth model and the interesting parties, the way our operating leverage is working, this is coming together with increased return on investment capital, so it increased last year and we expect roic and we expect it to continue to increase this year. So these are accretive investments that are helping our company become more profitable in terms of return on investment capital.

Regarding your second question, we switched Mexico's model to a growth model. So Mexico had been in yearly, sharely crimes in Cola in each year of the last 10 years. And we completely switched that around last year, and we returned to share sales for cola and in the case of flavors in Mexico, we had been in five years of decline of yearly declining in share of sales in flavors.

And again, we had a very positive year last year in share of sales in flavors. And that's the idea. We don't intend to deviate from this growth model. We intend to seek a balanced, sustainable growth where we improve our relative competitive position in terms of share value year over year. Does that help, please?

Ulises Argote: Yes, that's perfect. Thanks so much for the call there, Ian, Gerardo, congrats on the results.

Gerardo Cruz: Thank you.

Ian Craig: Thank you.

Operator: Thank you very much. As we have no further questions in the queue, I would like to turn it back over to Mr. Collazo for any closing remarks.

Jorge Collazo: Thank you very much everyone for your interest in Coca-Cola FEMSA for joining us on today's call. As always, myself, the rest of the IR team, Lorena, Marini, Emilio, we are available to answer any of your remaining questions and we look forward to speaking to all of you again very soon. Thank you very much.

Operator: Thank you very much. That concludes today's conference. You may now disconnect. Hope you may stay on the line.

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