Coca-Cola FEMSA Fourth Quarter 2024 Conference Call

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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 2024 Conference Call. My name is Melissa and I will 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 on listen-only. However, you will have the opportunity to ask questions. This can be done by pressing star one on your keypad at any time to register your question. If you require assistance at any point, you may press star zero to be connected to an operator.

I'll now turn the call over to Jorge Callazo, Director of Investor Relations. Please go ahead.

Jorge Callazo: Thank you Melissa. Good morning everyone. Welcome to this webcast and conference call to review our fourth quarter and full year 2024 results. Joining me this morning are Ian Craig, our Chief Executive Officer; Gerardo Cruz, our Chief Financial Officer, and the rest of the Investor relations team. As usual, after prepared remarks, we will open the call for Q&A.

Before we proceed, please allow me to remind all participants that 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 and are based upon currently available data. The actual results are subject to future events and uncertainties that can materially impact the company's performance. For more details, please refer to the disclaimer in the earnings release that went out this morning.

Now, let me turn the call over to our CEO to begin our presentation. Ian, please go ahead.

Ian Craig: Thank you Jorge. Good morning, everyone, and thank you for joining us today. 2024 marked a second chapter of our transformation and another positive year for Coca-Cola FEMSA. Our full year results reflect progress in the implementation of our sustainable long-term growth model, coupled with our ability to navigate external headwinds in the form of challenging macro environments and extreme weather events, including impacts to our infrastructure, such as the temporary closure of our plant in Porto Alegre. I am encouraged that we continue cementing the growth of our core business by expanding our customer base and by working together with our partners at the Coca-Cola Company on powerful marketing campaigns and on relentless commercial execution across our markets.

In digital, we took Juntos+ to the next level with the deployment of advanced AI capabilities. We finished the year with 1.3 million monthly active users. This means that 60% of our customer base are monthly active buyers, up from 4% from September – up 4% from September. Additionally, we multiplied the number of enrolled clients in Premia Juntos+, our loyalty program, by more than four times during 2024. We went from 250,000 in January to more than 1.1 million by year end. Notably, we are also digitising our salesforce as we successfully developed the Juntos+ Advisor tool in Brazil, which will be a great enabler for our sales team. Although there is still more to be done, our technical and supply chain team made remarkable progress in removing infrastructure bottlenecks to capture the growth opportunities that are ahead of us.

As part of our agenda for today's call, I will begin by summarising our consolidated results for the fourth quarter. Then I will expand on key developments across our markets and finish with a few comments regarding 2025. Before opening the call for questions, I will hand over the call to Gerry, who will walk you through our division's performance and provide you with an update on CAPEX and savings achieved for 2024, as well as our plans for 2025.

Moving on to the summary of fourth quarter results. Volume grew 2.2% year-on-year, reaching 1.08 billion unit cases. This increase was driven by growth across most of our operations and a slight volume decline in Colombia.

Total revenues for the quarter grew 14.3%, reaching MXN 75.5 billion, driven mainly by our revenue management initiatives and favourable currency translation effects from most of our operating currencies into Mexican pesos. On a currency neutral basis, our total revenues increased 13%.

Gross profit increased 17.1% to MXN 35.7 billion, leading to a margin expansion of 120 basis points to 47.3%. This increase was driven mainly by our top line growth, favourable mix, easing sweetener and PET costs, and the favourable effect of hedges. These factors were partially offset by higher fixed costs, such as maintenance and the depreciation of most of our operating currencies as compared with the US dollar.

Our operating income increased 25% to MXN 12.1 billion, with operating margin expanding 140 basis points to reach 16%. Operating margin expansion was driven by top-line growth defects and cost and expense efficiencies across our operations. We were able to mitigate margin pressures related to higher operating expenses such as labour, freight, maintenance and an operating foreign exchange loss that was driven by the depreciation of most of our operating currencies as compared with the US dollar.

It is important to mention that our operating income includes extraordinary unfavourable effects, driven by asset write-offs and expenses related to purchases of finished products, site cleaning and removal of debris related to the impact of Hurricane John in Guerrero and the flooding in Rio Grande do Sul. This effect was partially offset by the recognition of insurance claims in both Mexico and Brazil. As such, the net impact at our operating income level is an unfavourable expense of MXN 730 million.

Adjusted EBITDA for the quarter increased 22.5% to reach MXN 16.1 billion, and adjusted EBITDA margin expanded 140 basis points to reach 21.3%.

Finally, our majority net income increased 35.1% to reach MXN 7.3 billion. This increase was driven mainly by operating income growth, coupled with a decrease in our comprehensive financial results that Gerry will explain later.

Now moving on to our full year 2024 results. Volume growth met our expectations for the year, increasing 4.4% to reach 4.2 billion unit cases. Our full-year top line increased 14.2% to reach MXN 279.8 billion. Notably, our operating income increased a solid 17.4% year-on-year to surpass MXN 40.1 billion for an operating margin of 14.3%, the highest for Coca-Cola FEMSA since 2015. Moreover, we invested a record CAPEX of MXN 25.3 billion, representing 9% of our total revenues, with investments that will enable us to add the necessary capacity to support our long-term growth ambitions.

Now, expanding into our operations highlights for the fourth quarter. In Mexico, our volumes increased 0.8% year-on-year, cycling a high comparison base over the previous year, which had grown 5.5%. After the 1.5% volume decline experienced during the third quarter, we saw a gradually recovering volume print[?] month over month, with October being affected by unfavourable weather conditions and a deceleration in overall economic activity.

Our initiatives to expand our customer base, coupled with a revamped portfolio architecture in the sparkling and still beverage categories, continued driving profitable positive results. For instance, by leveraging a growth mind-set, process simplification, and the use of big data analytics, we targeted existing white spaces to expand the customer base in Mexico by more than 150,000 new clients over the past 18 months.

In the Colas category, Coke Zero continues outperforming, increasing double digits as compared to the previous year. Additionally, our initiatives to adjust our portfolio architecture supported our 4.8% growth in Multi-serve one-way presentations year-on-year. In Stills, an ambitious portfolio revamp led to 4.2% growth during the quarter, driven mainly by 67% growth in teas and 14% growth in both Powerade and Monster.

Despite facing capacity constraints, our technical and supply chain teams in Mexico produced more than 2 billion unit cases, moved more than 18 million pallets and covered more than 110 million kilometres. Notably, their efforts to alleviate capacity constraints resulted in 15 bottling plants in Mexico breaking production records this year. To give you a sense, over the past two years, improvements in bottling efficiency in Mexico resulted in a 14% increase in production, which would be the equivalent to the addition of eight bottling lines. Moreover, improvements in warehouse efficiency and the opening of four new distribution centres increased our storage capacity by 50% compared with 2022. These improvements in efficiency, coupled with the implementation of dynamic routing, equalled an investment of more than $290 million in capacity expansion. We are confident that these enhanced capabilities, together with the additional capacity expansion we plan for 2025 and beyond, ideally position our Mexico operation to capture its many growth opportunities.

Moving on to Guatemala, our volumes in Guatemala grew for the quarter 7.5% year-on-year, driven mainly by our initiatives to grow the core business and to expand the customer base. As I mentioned during our previous call, Guatemalan consumers are looking for convenience and affordability, which, coupled with our solid execution at the point of sale, has allowed us to become leaders in the Cola segment. Indeed, we have improved our competitive position by more than 15 percentage points of share of value in Colas since 2018. Moreover, we continue to focus on expanding our customer base. For instance, in 2024, we increased our total customer base by 12% year-on-year, which represents a 48% customer expansion as compared with 2018.

As we enter the new year, we are confident in Guatemala's long-term opportunities. To capture them during 2024, we expanded our production capacity in the country by 20% with two new production lines, one of them for returnable bottles. And we expect to add two more lines in 2025. Additionally, we added 5,000 new pallet positions[?] in warehouse capacity, a 12% increase as compared with 2023.

Now let's move on to discuss our markets in South America. In Brazil, our volumes for the quarter grew 3.7% year-on-year. This growth was achieved despite the suspension of our plant in Porto Alegre and the unfavourable weather conditions in December, in which the major cities in our territories received four times more rainfall than in the previous year. Notably, our results continued to be driven by [inaudible] performance across our categories. For example, Coke Zero Sugar increased an outstanding 63% year-on-year. Indeed, this is a global market where Coke Zero is growing the most. Single-serve mixes is another important growth and profitability driver. During the quarter, our single serve mixes expanded two percentage points to reach 26% in Brazil.

In Stills, Powerade and Monster brands grew 12 and 21% respectively. Innovation has really taken a central stage in our industry, as evidenced by 85 product launches in Brazil during 2024. Among other innovations, we launched a successful limited edition of Coca-Cola Zero Oreo, the new Monster, Peachy Keen Zero Sugar, and in the alcoholic ready-to-drink space, we launched Absolut Vodka and Sprite last November.

During our previous call, I mentioned the initial rollout of our new salesforce automation tool, Juntos+ Advisor. Backed by advanced AI models, this tool enhances our salesforce capabilities, improving key coverages and salesforce effectiveness at the point of sale. During the quarter, we moved from pilot phase to a large scale rollout. Now, more than 40% of our salesforce in Brazil is using Juntos+ Advisor. Its initial results are already exceeding expectations, improving location accuracy and providing our salesforce with real-time information during visits. Moreover, our AI-driven guided missions have resulted in increased SKUs per store and digital revenue per month.

Finally, I want to recognise the efforts of our technical and supply chain team in Brazil who, in the face of the temporary closure of our Porto Alegre facility, managed to surpass our Brazilian operations single year unit case production record. Thanks to their commitment, we expect to operate Porto Alegre at full capacity at the beginning of the second quarter, positioning us for growth in 2025.

Now in Colombia, we are working to ensure a winning portfolio in an industry that has been affected by the implementation of an excise tax since November 2023. During the fourth quarter, despite adverse weather conditions, our volumes improved sequentially, declining 0.3% year-on-year. This sequential improvement was driven by our team’s efforts to provide affordability and revamp our Multi-serve portfolio. As a result, our Multi-serve volumes increased 2.2% year-on-year. Our team’s focus on driving cost and expense efficiencies is generating profitability improvements, resulting in a 5% reduction in cost per unit case during the year. Moreover, we are strengthening our installed capacity by adding a new PET line in Barranquilla, which started operations this month. This new production line will alleviate supply chain pressure, providing self-sufficiency to the coastal region while further reducing our freight costs to enhance profitability.

Finally, our quarterly performance in Argentina. Although the environment remains complex, we are confident in a gradual, sustained recovery. For instance, we are seeing encouraging signs from the recovery of the tradable and durable goods sectors who are leading the way. Importantly, macro indicators such as monthly inflation continue improving and are now close to piercing 2%, the lowest reading in almost five years. During the year, we implemented the right strategy to navigate the crisis and emerge stronger, focusing on affordability while maintaining our customer base and household penetration. As a result, our fourth quarter volumes increased 2.9% year-on-year. At the same time, we leveraged cost and expense controls to reduce our costs and expenses by 6% year-on-year, maintaining a flexible and lean cost structure while accelerating digitalisation. To continue this path, during 2025, we expect to fully roll out version 4.0 of Juntos+ and our loyalty program. We are confident in our capabilities to capitalise on the expected turnaround in Argentina, enhancing our affordability initiatives, boosting single-serve, and consolidating our market leadership.

Now, let me switch gears to provide some initial comments as we look ahead to 2025. We are convinced that we have the right strategy and a highly motivated team to execute our plan. The implementation of our long-term sustainable growth model is under way, and we expect to continue following the same strategic playbook as in 2024. We are leveraging the many learnings of the year to fine-tune our plans, making Coca-Cola FEMSA a highly adaptive organisation. For 2025, our main pillars are, first, to continue growing our core business by leveraging our big bets[?], accelerating Coke No Sugar, improving our competitive position in flavours and developing profitable non-carbonated beverages. Second, we will continue taking Juntos+ to the next level, leveraging our AI capabilities and rolling out Juntos+ Advisor in Mexico and Brazil. And third, to continue fostering a customer-centric and psychologically safe culture for Coca-Cola FEMSA, consolidating our refreshed purpose, vision and principles across our operations.

We are fortunate that we are participating in a vibrant beverage industry within a growing region. We are confident that Coca-Cola FEMSA is ideally positioned to capture the many growth opportunities that are out there in 2025 and beyond.

With that, I will hand the call over to Gerry. Thank you Ian.

Gerardo Cruz: Thank you, Ian. Good morning, everyone. Summarising our divisions' results for the fourth quarter. In Mexico and Central America, volumes increased 1.5% to reach 589.6 million unit cases, driven by volume growth across all territories. Revenue increased 10.4% to MXN 41.5 billion, driven mainly by our revenue management initiatives and the favourable currency translation that was driven by the depreciation of the Mexican peso. On a currency neutral basis, revenues increased 7.2%.

Gross profit increased 10% to reach MXN 20.3 billion, resulting in a gross margin of 48.8%, a slight contraction of 20 basis points year-on-year. This margin performance was driven mainly by higher freight costs, inventory write-offs, and unfavourable mix effects that were partially offset by our top-line growth, hedging strategies and improving sweetener and packaging costs.

Operating income increased 23.7% to MXN 6.9 billion, and our operating margin expanded 180 basis points to 9.7%. This expansion was driven mainly by cost and expense efficiencies, such as marketing and the recognition of insurance claim payments. On the other hand, these effects were partially offset by fixed asset write-offs, one-time expenses related to hurricanes, higher expenses such as maintenance, freight, and an operating foreign exchange loss. The net effect of extraordinary expenses related to hurricanes and insurance claim payments is an expense of MXN 399 million.

Finally, our adjusted EBITDA in Mexico and Central America grew 23.7%, leading to a 240 basis point margin expansion to reach 22.9%.

Moving on to the South America division. Volumes Increased 3% to 489.5 million unit cases. This increase was driven by the growth achieved in Brazil, Argentina and Uruguay that was partially offset by a slight volume decline in Colombia. Our revenues in South America increased 19.4% to MXN 33.9 billion, driven mainly by revenue management initiatives and favourable mix. These effects were partially offset by unfavourable currency translation effects into Mexican pesos, driven by the depreciation of the Argentine peso and the Brazilian real. On a currency neutral basis, total revenues in South America increased 21%.

Gross profit in South America increased 28.1%, leading to a margin expansion of 300 basis points to 45.4%. This margin expansion was driven mainly by top-line growth, operating leverage, declining packaging costs, and favourable effect of hedging initiatives. These effects were partially offset by purchases of finished product related to the capacity constraints in the south of Brazil, due to the floods, and currency depreciation from most of our operating currencies as compared to the US dollar.

Operating income for the division increased 26.9% to MXN 5.1 billion, and operating margin expanded by 80 basis points to 15.1%. This margin expansion was driven mainly by operating leverage coupled with cost and expense controls across our operations. These effects were partially offset by higher fixed costs and expenses, such as freight, labour and an operating foreign exchange loss.

Finally, we recognised in South America an extraordinary expense related to fixed asset write-offs and expenses related to the floods in the south of Brazil that was partially offset by insurance claim payments. The net effect in the quarter related to the Porto Alegre event is an expense of $331 million.

Finally, adjusted EBITDA in South America increased 20.7% to MXN 6.6 billion, and adjusted EBITDA margin expanded 20 basis points to 19.3%.

Shifting gears to our comprehensive financial results, which recorded an expense of MXN 980 million as compared to an expense of MXN 1.3 billion during the same period of the previous year. This 23.7% reduction was driven mainly by a foreign exchange gain as compared to a loss in the previous year, which was driven by the quarterly depreciation of the Mexican peso and the Brazilian real as applied to our US-dollar-denominated cash position and the higher gain in inflationary subsidiaries. These effects were partially offset by a loss in financial instruments as compared with a gain during the same period of the previous year.

Our interest expense net remained flat as higher interest expense was offset by higher interest income related to increases in interest rates.

Moving on to our CAPEX investments. As we have discussed in previous calls, one of our six strategic pillars is to remove infrastructure bottlenecks and digitise the enterprise. To this end, we entered a multi-year programme to increase CAPEX investments, to install the necessary capacity to capture the many growth opportunities that lie ahead of us.

Summarising our progress during the year, in 2024, we installed seven bottling lines for a 3.5% total capacity increase year-on-year. Three of these lines started up in Mexico, increasing our capacity in the country by 4%. One new bottling line in Brazil increased our capacity by 2%, excluding the effect of Porto Alegre. We also installed one returnable glass bottle line in Colombia that adds 4% capacity, and two lines in Guatemala that add 20% to the installed capacity. In 2025, we expect to install nine bottling lines; one in Mexico, two in Guatemala, one in Costa Rica, one in Colombia and four in Brazil.

Regarding warehouse capacity, during 2024, we inaugurated 11 distribution centres, which represent 5% additional capacity as compared with 2023.

Finally, on savings initiatives, a year ago, we shared a target of $60 million in cost to make, cost to serve and primary freight savings for 2024. We are pleased to report that our technical and supply chain team exceeded this savings commitment by $11.5 million, and has identified further sources of efficiency and savings for 2025, committing to more than $90 million in savings.

Thank you all for joining us on today's call. Operator, we are ready to open the call to take questions.

Operator: Thank you very much. As a reminder, if you would like to ask a question, you may press star followed by one on your keypad to register your question. To withdraw your question for any reason, you may press star two. You will be advised when to ask your question. Our first question comes from Alejandro Fuchs with Itau. Please go ahead.

Alejandro Fuchs: Hello, Ian, Gerardo, Jorge and team. Thank you for the questions. And congratulations on another set of very strong results. Two quick ones from my side. First one for Ian in Mexico. Maybe you can discuss, what are your expectations in terms of volumes in 2025 on the back of slower macro-dynamics maybe in the country?

And the second one is very quickly for Gerardo. I wanted to see if you can tell us with the both negative and positive one-offs, what is the impact to the EBITDA of the company during the quarter? Thank you.

Ian Craig: Sorry, we were on mute. In the case of Mexico, we're expecting mid-single-digit volumes for Mexico. I think during the year, there will be differences between the quarters, but overall we should have a mid-single-digit volume year for Mexico.

Jorge Callazo: I think Alejandro, this is Jorge. It's definitely – the outlook of Mexico, as Ian mentioned, this is for the full year, but we have to recognise that we're going to face tougher comps in the first half of the year, right? And the second half of the year probably we're going to see easier comps. We have seen during 2024, especially in the second half, a moderation in the pace. We continue to see effects that affected 2024 in the form of tough weather in the second half. Now, we mentioned the hurricanes. We also have to consider an unavailability that affected us in Mexico in 2024. However, as Ian and Gerry mentioned, we added three lines. So it's going to help us.

But when we look at the consumer, we don't think that it's going to be a straight line, right? I think we're seeing mixed signals. We're seeing that also between the fourth quarter, for example. To give you a sense, during the fourth quarter, October was very tough. But then we started to see a gradual sequential improvement, with November going back to positive volumes and then December even stronger than November. So we know that it's not going to be a straight line. We are seeing the projections now. Just this week, Bank of Mexico lowered the expectation for GDP, but we have to focus on the things that we can control. And these mid-single-digit expectations that Ian mentioned is based on a plan that the team in Mexico is implementing. We have to go out looking for those pockets of opportunity. We have pockets of opportunity to recover share now. We have been mentioning that, and the capacity constraints limited our capacity to recover share in Mexico during 2024. So we have to go out there in 2025 to recover that.

Coca-Cola Zero Sugar also started accelerating in 2024 in the second half of the year. We are going to continue focusing on that in 2025, and we have an opportunity in flavours as well. So I think overall, the Mexico team has a very robust plan to go out for this expectation. But I wanted to mention that we know that we're going to have mixed signals from the consumer. It's not going to be a straight line. And we have to be very mindful of that as we progress during the year.

Ian Craig: When you think about it, you have a lower GDP projection on one side, so it's not going to be the same bonanza that we had in the first six months of pre-election. So you're not going to see that on one side. But on the other hand, I think we're much better prepared to go into high season this year. And we had about 40 million unit cases of unavailability just in Mexico last year. So getting into high season, much better prepared this year, having that comps, so there are these offsets. And like Jorge mentioned, we will have finished all the [inaudible] realignment for Colas Multi-serve. We have three large regions left. We finished that. We have finished all of the flavours, Multi-serve price alignment in one single price point. We have finished that as well. And we have finally, I believe, cracked the code on Coke Zero for Mexico, which had been our laggard and which now is really accelerating. And we have a good plan.

So there will be, on the one hand, lower GDP, but, on the other hand, we have favourable comps in terms of unavailability. And also the implementation of the pending regions for our – both flavours revamp and the Colas [inaudible] reset.

Gerardo Cruz: And with respect to your second question, Alejandro, mainly related to the two weather events that we had during 2024, both the hurricane in Mexico and the floods in Brazil, we had a net effect and a net expense that flowed through EBITDA for the quarter of MXN 206 million and for the full year, a net effect which was a positive effect between the expenses and insurance claim collections of MXN 56 million.

Jorge Callazo: Thank you very much. Ian, Jorge, Gerardo, very clear.

Ian Craig: Thank you, Alejandro.

Operator: Thank you. Our next question comes from Ben Theurer with Barclays. Please go ahead.

Ben Theurer: Hi. Yeah, good morning and thanks for taking my question. Congrats on a very strong finish. Just wanted to pick up and maybe get a little more – go a little more into detail as it relates to some of your digital initiatives, Juntos+ and Juntos+ Premia. As you, kind of, like, roll this out, can you share with us maybe a few anecdotes, stories, how that has helped maybe improve not only your relationship with your, ultimately, end customers and at the point of sale, but also things like inventory management, etc.? And what you expect in terms of, like, the growth rates for this to be in terms of additional users being added to the system throughout the year. That would be my main question I have for you this morning.

Ian Craig: Sure. Thank you, Ben. Just think of it this way, when we look at Juntos+, we've grown about 20% our monthly active purchasers. When you think of those monthly active purchasers, uncontrolled causal inference analysis that our analytics teams do, they bring around 2% of incremental revenue, those clients. So it's a big uplift. And that's on the Juntos+ app 4.0.

I think for us, we really want to highlight as well the potential from our Juntos+ Advisor tool. I mean, what we have seen in Brazil, for example, like you mentioned, just anecdotal evidence, but these are hard numbers, is our geo efficiency rises four points, like, from around 92% to 96%. What does that mean? We know that the salesman is there at the client completing the visit. And that's a big, big uplift. When we look at our combined coverages, which are directly – which is probably the single indicator that most directly translates to increased share when you have combined coverages, that increases almost four percentage points from around 46% to 50%. That's huge, huge numbers. Our guided missions improve almost 2.6%.

So I think the rollout of Juntos+ Advisor is also going to be big, and we're going to get that in our two largest markets completely rolled out this year. So I don't know if you want to complement, Jorge or Gerry.

Gerardo Cruz: If I may add the one piece that Ian didn't mention, which is Premia Juntos+, which is our loyalty plan. This has proven to be a very successful tool, both for recruitment as well as for execution capabilities. And the reason for its high success has been mainly the high perception of value that our customers have towards the loyalty points that are generated. The ease of conversion and the quickness with which our customers can convert those points into value that registers in their and their respective cash registers is very high.

To give you a sense, and Ian mentioned it during the prepared remarks, but we quadrupled the size of enrolled customers in Premia Juntos+. And the other data that I think wasn't mentioned, 72% of those customers are redeeming actively. So very high redemption rate. And our plans for 2025 are to increase that number of enrolled customers to 1.3 million and increase also the redemption rate to a number as high as 85%. That, for me, is a very interesting upside that we are still exploring the whole potential that we can get from that loyalty programme, and that we perceive as a very important competitive advantage to any other platform in the market.

Ian Craig: There's one – that's a great question, sorry. There's one other aspect that we haven't talked about much, but we launched also in Brazil, Juntos+ as a service for the first time. And what that means is we are now offering the Juntos+ app to our distributors, so to our distributors' clients. So that has a potential for [inaudible] of another 137,000 incremental clients. And so far it's going very well. And it's a very interesting potential to us that all of our third-party distributors can now offer to their clients the app. This also has the sidebar that it can now be, if any other bottler would be interested, rolled out to other bottlers as well. So it's really interesting for us to try and explore how this works for our third-party distributors.

Ben Theurer: Perfect. Thank you.

Operator: Thank you. Our next question is from Renata Cabral with Citigroup. Please go ahead.

Renata Cabral: Hi, everyone. Thank you so much for taking my questions. My questions are two about the Brazilian operations. First, regarding Porto Alegre plant, I would like to know if you could give us some colour on how it is evolving, the resume of the operations there.

And my second question is regarding the potential financial impacts regarding logistics in the fourth quarter of the year. As we know, it's a quarter, a really important quarter, especially in Brazil because of the festivities. And yeah, those would be my questions about bridging operations. Thank you.

Ian Craig: Hello, Renata. So the team is working very hard on putting the Porto Algere plant back online. Right now, we are around 30% of where – of the use of capacity. And the new line, the large PET line is right now already in mechanical tests, finishing microbiology. And by March, that line, only that line represented 40% of that plant. So by the end of March, we should be at 70% of the Porto Alegre plant. So it's going very well. And like we mentioned in our prepared remarks, by April, it should be fully back online. But even by the end of March, we should be around 70%. So it's going pretty accelerated on the restart of the plant.

The progress on the walls, the preparation for any other flood risk, that's going to take more time. That's going to take at least 12 to 18 months. And it's already underway with a CAPEX of $15 million, including pumps, walls, levies[?]. But that takes a longer time. But the plant should be around 70% of where it was by the end of March. Okay?

Jorge Callazo: And, Renata, if you could please repeat the second part of your question because it broke up a little bit. If you could repeat, please.

Renata Cabral: Yes, absolutely. My second question is regarding the additional logistical costs that you eventually had in the fourth quarter to source the product from other regions or maybe other bottlers. If you have the amount that you had in the first quarter, it would be really helpful.

Ian Craig: Well, I'll let Gerry go into that detail, but I would say all of the one-offs were around MXN 730 million, in pesos, impact. All of the one-offs. That includes Mexico and Brazil for the quarter. For the year, they were around MXN 1.6 billion. So that's, sort of, part of what I was commenting with Alejandro, the favourable, sort of, one-off comps that we will have versus last year, in Brazil, they're quite relevant.

Gerardo Cruz: And the details for Brazil and those numbers, Renata, mainly relating to the cost of imported products, the write-off of assets as well as inventories, and increased expenses, mostly related to logistics and cleaning of the site for the quarter was MXN 331 million. A portion of those expenses is virtual, which is the write-off of assets and inventories, but the total impact was MXN 331 million. That was for the quarter. For the full year for Brazil, the impact was MXN 889 million on those same concepts.

Ian Craig: So the numbers I mentioned, Renata, which were total costs, Brazil, is about half. That's right. Okay?

Jorge Callazo: And maybe Renata, just one point that I would add these figures that Gerry mentioned, those are the impacts net of the recovery of the insurance, just to point that out.

Renata Cabral: Great point. So yes, very clear. Thanks so much for the colour.

Jorge Callazo: Thank you, Renata.

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

Felipe Ucros: Thanks, Operator. Good morning, Ian, Gerry and team. Thanks for the space for questions. I guess mine has to do a little bit with capacity, and you've been a little bit constrained on production in Mexico and Brazil, obviously for different reasons. But I guess my question applies for both regions, in any case. As you ramp up capacity, and this has been happening throughout 2024 and will continue, are you finding it easy to recapture the share that perhaps you sacrificed due to the constraints that you had?

And also very short, if you can give us an update on the FX hedging for 2025, that that would be great. Thank you.

Ian Craig: Hi, Felipe. The short answer is yes. There are several opportunities relating to share. I would say that in Mexico the share opportunity is even larger because when we set up our moon-shot plan together with Coke and really aligned the 360-degree plan, we grew faster than expected and we're one year ahead of that plan. So the cases that we have lost due to capacity, those 40 million in Mexico for example, there – and in the case of Brazil, it was more related to floods really, rather than anything else. These are really last year and a half issues. In Mexico, the opportunity is larger. We have almost five points of share that we can get after, that we have lost at least since 2014.

So the way we've set up our long-term – sustainable long-term growth model is to go back to those points. That's why we have price as a solver of our equation. We're always looking to increase our share of value, even if it's ten basis points. But to have that increase every year and price for us is a solver. So I would say the opportunity in Mexico for this year is to get better prepared to high season. We have more trucks, we have more distribution centres. But in terms of manufacturing capacity in Mexico, we would only be ready until 2026, because the line that we have [inaudible], that comes online only at the fourth quarter. So we don't have increased manufacturing capacity in Mexico. That's why we're going on with a more robust inventory plan for the high season. That's the case of Mexico.

The case of Brazil, the capacity is going to be solved by the end of this year, the large capacity gaps. So it's a bit of a different story. Gerry, do you want to go into the other…?

Gerardo Cruz: Regarding our hedge position, Felipe, I'll start talking about the FX hedges, and then I'll dive a little deeper into commodity prices for raw materials. Regarding FX, we're basically, for all of our operations, with the exception of Colombia, where we have a higher percentage of our 2025 requirements hedged, we are at around 35% of our total FX exposure hedged for the year. As you know, we have this 12-month rolling methodology where, as time progresses, the months that get closer to the present, have a higher percent of the exposure hedged. In the case of Colombia, as I mentioned, we're at 70% of our exposure for the year hedged.

And regarding commodities prices or raw materials for Mexico, our PET requirements are hedged at a level of 40% for 2025. Also, Mexico, our aluminium requirements at 50% of our requirements, as well as Brazil, same level, 50% aluminium. For the case of sugar in Brazil, we’re 90% hedged for the year, 83% in sugar for Uruguay and 94% hedged in Mexico for HFCS. For the case of Colombia, aluminium at 40% for our requirements of the year, and sugar 95% of our requirements for the year. And finally, for Guatemala, 30% of our requirements of aluminium, and an important exposure in Guatemala, which is diesel, is hedged at 40% of our 2025 requirements.

Felipe Ucros: Very clear. Thanks for the colour. If I can do very small follow-up, I thought it was interesting that you mentioned that you finally cracked the plan for Coke Zero in Mexico. Just wondering if you can give us some details on how you did it, because it seemed to be the region where you're having a lot of trouble turning the consumer away from sugar and into Zero.

Ian Craig: Yes. There are several aspects to it. I think we were almost trying to get a little too clever, vis a vis competitors offering in trying to, I wouldn't say much, but to have the right price architecture, but with different packages, we adjusted to compete head on. So we have been losing a couple of points in the Cola No Sugar, and we adjusted to have the right price platform, but with the same packages. So there is no confusion for the consumer. It's a pretty clear, what you get price value for the same package. Plus what Coke Company does like no other, which are the campaigns, the influencers.

So I think once we adjusted that, which we didn't have – we were trying to be a bit too clever, and I don't think it was translating to the consumers – it's really taking off. So I think the momentum is there. We've seen what happens in countries like Brazil, once you get the ball rolling, and it's looking pretty good. And I am very excited also about what's happening for this year. I mean, the properties that we're going to be exploiting. I'm not going to spoil, do the spoiler alert on the asset. But the asset that we're going to be using this year is phenomenal. The soccer platform is strong as well. The concert platforms, the focus that we're doing on share of visual inventory in execution, the calendar[?], the tactical calendars. So overall I have no doubt that Coke Zero is going to be a very pleasant result for this year in Mexico.

Gerry?

Gerardo Cruz: And just to add another component for the success of Coke Zero is coverage and tying it to previous question that we had, which is how we're using our digital capabilities in the business and using the information that we get both from our Juntos+ platform as well as from Juntos+ Advisor. We have an increase in coverage in Coke Zero in all of our operations, including Mexico, which provides certainly an uplift in performance.

Ian Craig: It's very, very low mix, Coke No Sugar. So there's no reason why we can't grow it double digits like we did in Brazil and Argentina. So there's plenty of upside there.

Felipe Ucros: Great. Thanks a lot for the colour, guys.

Ian Craig: Thank you.

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

Rodrigo Alcantara: Hey good morning, afternoon, Ian, Gerry, Jorge, thanks for taking my question. Two quick ones, if I may. The first one would be for Ian. Everyone is very cautious if not, let's say, pessimistic on the outlook for the economy in Brazil. But at the same time, it has been one of your best performance regions, right? So, I mean, you live in Brasilia, right, for a couple of years. So just to share your thoughts on the income elasticity or the price elasticity of the portfolio that you see there. How defensive it could prove if it is deceleration – or when this deceleration ultimately happens in Brazil? That would be my question for you.

And for Gerry, I would like to speak a bit about cash generation, right? Maybe you can explain us, there was a small mismatch between the reported CAPEX of MXN 29 billion and the footnotes of MXN 25 billion in the prior release. Just curious if you can elaborate on what the explanation of that about CAPEX. And staying on cash flow, also, looking at the working capital, it looked like the inventory line, the cash outflow was much more higher than a year ago. So if you could elaborate on the cash flow, Gerry, it would be very helpful. Those would be my two questions. Thank you very much.

Ian Craig: In the case of Brazil, you also see it's our second largest market. And projections show still growth in GDP 1.7%, but it's lower than the 3.5% clip[?] that we had in 2024. So it's still growth but at a lower clip. That being said, I mean, we are still having to purchase product because our Porto Alegre plant, like I mentioned before to Renata, it's around 30%. So I think to us, Brazil, while overall it's going to be a lower GDP growth year than last year, in the case of Coke FEMSA, we have, I wouldn't say easy comps, but we have very favourable comps starting May where we don't have – we don't expect to have – we hope it was a once-in-a-lifetime thing, what we saw in Porto Alegre, which really complicated things for us.

So Brazil, I think you're right in the sense that it's going to be slower growth of the country as a whole, however, still growth. In the case of Coke FEMSA, we have the good 'comparison base' starting in May. So that does that help?

Rodrigo Alcantara: Yeah, that helps. Thanks. The other one would be on the cash flow. Thank you.

Jorge Callazo: Sure. Rodrigo, first, before passing it on to Gerry for the cash flow, just a clarification regarding the CAPEX. That's a good take because the CAPEX that you see below the chart, basically the one that you see there below the EBITDA, that CAPEX is the cash flow, but also includes CAPEX that has already, for example, been invoiced, but it's not necessarily paid. So it's not CAPEX cash flow, let's say.

And the other one that you see in the footnote, that is the CAPEX effectively paid. So that's the cash flow. And that's the one that, for example, Ian referred to during the prepared remarks. That's the 9% of revenues. The other ones are commitments that were committed during 2024. The difference is commitments that will be paid later down the road in 2025. I hope that clarifies that that point, Rodrigo.

Gerardo Cruz: Regarding the effect on the working capital, Rodrigo, and related to a conversation that we've been having throughout the year, which is our capacity constraints, we had an important, extraordinary benefit in cash flow and working capital due to the consumption of reserve inventories to address high demand during the peak months of the year in consumption. That provided a benefit for us in working capital days, as well as accounts payable related to projects that are ongoing, mainly the migration of our ERP to the SAP S/4HANA cloud-based system. That generated also an increase in accounts payable during that year, given that it's a multi-year project.

Rodrigo Alcantara: That helps. Thank you, Gerry.

Jorge Callazo: Thank you.

Operator: Thank you. Our next question comes from Alvaro Garcia with BTG. Please go ahead.

Alvaro Garcia: Hey, Ian and Gerry. Thanks for the space. A question on operating leverage. In the context of your comments on freight, I wanted to double click on, sort of, that new target that you have for freight savings. What region is that specifically? And we were particularly impressed with operating leverage in Mexico. So any comments on maybe how digital is playing a role in that, or especially given higher labour expenses in Mexico, what's really driving that operating leverage in Mexico? Thank you.

Ian Craig: Alvaro, I'll let Gerry get into this question, but I would say the big, big uplift that we're going to see in operating leverage should be – in Mexico, should be in 2026 when we have more manufacturing capacity because still we have not enough capacity. So, we will be renting capacity in third parties for more inventory, having to pay some extra trucks. So I think in Mexico, we are seeing operating leverage, but you'll see a lot more in 2026. And when we have the new southeast[?] plant, then you'll see the [inaudible] as they should be, because we're still sending products down to the south. In the case of Brazil, like I mentioned previously, by the end of this year we should be where we need to be.

Gerry?

Gerardo Cruz: With regards to logistics savings that we have seen, I would say that excluding the FX[?], the negative impacts that we had given the weather-related incidents in Mexico and Brazil, overall, I could say that we've seen improvements given that we're deploying CAPEX to capacity, both manufacturing and distribution. So that means that we're getting the production of the products closer to where the demand points are. But this has been especially true for our operation in Colombia [inaudible] the capacity and distribution capacity closer to the coast. As you know, for a period of time, we had concentrated production in one mega plant in Colombia close to the capital in Bogota. With the growth of the market and getting that growth, a lot of that growth coming from the coastal area in Colombia, we have deployed a lot of capacity to that region that has been growing the most. This has provided a significant uplift in profitability by reducing logistics costs and expense in that operation.

Alvaro Garcia: Great. And then MXN 90[?] million [inaudible] that you mentioned for this year in terms of new savings, is that mainly Mexico, Brazil? Any colour on, sort of, where that's coming from.

Gerardo Cruz: It's coming from all of our operations. I think the number that I mentioned was MXN 90 million that we have identified for supply chain for this year. And it's coming from both cost to make as well as cost to serve and specific logistics in T1 and portfolio – optimisation of portfolios, and it's all over our operations. Obviously, given the proportional importance of Mexico and Brazil, those two account for most of those projected savings for the year. And to give you a sense, those MXN 90 million, I have the precise numbers: about MXN 50 million coming from Mexico, about MXN 28 million coming from Brazil – from LATAM, I mean, and about MXN 18 million coming from Brazil.

Alvaro Garcia: Awesome. Thank you very much. Congrats.

Jorge Callazo: Thank you, Alvaro.

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

Carlos Laboy: Yes, thank you, good morning everyone. I wanted to go at the CAPEX question a little bit differently. Can you speak to the level of confidence you have that your incremental CAPEX is the right level of CAPEX? In other words, there's not too much or too little for the sort of volume growth that you can generate over the next three years or so.

And maybe for Gerry, how might the positive return on asset and ROIC enhancement trajectory that you're on move over the next three years for this CAPEX? It's a very long way of also asking, are you hitting a return on asset and ROIC ceiling here, or do you think it can go further?

Ian Craig: Carlos, just to have a sense, the ROIC that we have for this year improved from 14 to 15%, more or less, Jorge. So I think, let me just put it this way, that we use – the normal practice, Carlos, that we have or that we think is the appropriate level of capacity slack is around 10%. This level of CAPEX of MXN 1.5 billion does not get us to that 10% slack. Okay? We're still below the 10% slack that we need. So that's why you're seeing, even though we have had two years very high CAPEX, our ROIC over the last two years, go from 12.7 to 14.2 to now 15.1.

We do expect, for example, flattish ROIC for this year, but it's at the highest level that we've had. So the CAPEX, when we look at the ROIC per countries, there are some countries that have very, very high ROIC. They also happen to be probably the ones where we're putting a lot of CAPEX in there. There are other countries that have lower ROICs, such as Colombia, but that the CAPEX immediately pays for itself even without higher volumes. It just pays for itself on freight because we are adjusting the notes[?] that we need. And it pays for itself on leasing of warehousing.

So I'm very confident that for this next year, we'll still have the same level of ROIC, notwithstanding that we're going to do record CAPEX, Carlos.

Gerardo Cruz: And adding to that, and this is our long-range projection, we expect, given that we're basically catching up with unserved demand, as you've seen with the numbers that we've had of out of stocks last year and this year. So this allows us, for the deployment of this CAPEX, especially the early portion of the deployment of this capital CAPEX, to get – those lines get filled up pretty quickly. And our long-range projection does account for improvement still in ROIC as we move forward.

Ian Craig: Yeah, we had 40 million out-of-stocks in Mexico, 12 million out-of-stocks in Brazil. 80 million empty cases in Brazil, which we had to freight from other bottlers or import from ourselves, but in essence, 30 million in Brazil. So we do need that capacity, Carlos, and I think we can always adjust longer term if we think demand is not panning out to be what it is. However, for the short term, I mean, even if there were to come a slowdown, I think that would allow us to get to 10%. That would be a good thing. We're not there yet. So for this year, for this MXN 1.5 billion is pretty necessary. And we'll keep the ROIC at the same high levels. That's what we expect.

Carlos Laboy: And cleaning up the out of stocks probably helps you with your client relationships too, which is another positive. So thank you.

Ian Craig: Yes, yes, yes, I would say when we look at our customer service metrics, we had improvements this year. But you can clearly map that when we had these issues, they have an impact, like you mentioned. Overall, in the year, we improved, but we do see those impacts when you have the higher out-of-stocks. You're correct. Thank you, Carlos.

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

Henrique Morello: Hi, everyone. Thank you so much for taking my question. I would like to explore a bit more the Brazil beer operations. So if you could talk a bit on how are you seeing the competitive trends in the industry and how attractive this market[?] is right now for you, that would be great. And also we saw some news about the Coke system partnering with Cerpa in Brazil, for instance. That should be really small for you right now. But on that line, if you could explore a bit more on how is your head going forward in terms of additional distribution and production partnerships and any other additions to the beer portfolio, that would be helpful as well. Thank you very much.

Ian Craig: I think like you mentioned, the Cerpa piece, while it's very interesting because it has very good brand attributes in the premium category in Brazil, it's very small. It has a very small base to start off, and to us it's an interesting addition because we want to keep winning in prestige on premium clients, and that will help us there. But it's not something – it's not a mainstream beer. It's not a large volume offering that's out there.

In the case of Brazil beer, we see a lot of intensity, a lot of competitive intensity. You get the numbers from both Heineken and ABI. With the portfolio that we have, I think the team in Brazil has done a phenomenal job with the portfolio that we have. So what we're looking with Cerpa and the things that we have in our pipeline, is to be complementing that portfolio so we can have a competitive portfolio in Brazil. I would say that would be my answer on that.

Jorge, do you want to comment?

Jorge Callazo: Yes. Maybe just to follow up on Cerpa, because a very common question regarding beer Brazil is whether Coca-Cola FEMSA would look to invest into producing beer. For us, the strategic intent is not to get into the beer production, but as Ian mentioned, we are very interested in the distribution part of the business. Beer makes a lot of sense for us to continue strengthening the portfolio. And we are working with the partners, with Heineken, with Estrella Galicia, we have Teresopolis, and now we will have Cerpa. That complements the portfolio as we look to continue building it, going forward.

Henrique Morello: Thank you. That's very helpful.

Jorge Callazo: Thank you.

Operator: Thank you. Our next question is from Ulises Argote with Santander. Please go ahead.

Ulises Argote: Hey guys, thanks for the questions. Just one quick one here. And this comes more in the context of your, kind of, current leverage being below the 0.7 times as you put there in the release. But any room or anything that we could expect in the dividend front or maybe to start on the buybacks, I don't know, maybe if you can include some comments on your views around M&A, given the current situation there on the low leverage for the company. Thank you.

Gerardo Cruz: Thank you, Ulises. So this has been a topic that certainly we've been discussing for the past few quarters. We understand and we've been clear that we have an inefficient capital structure. Our net leverage, as you pointed out, is a little below 0.8 times. We are consuming, as we promised and discussed during this call, our excess cash position. That's helping out with increasing our net leverage by reducing that excess cash position. We believe that this is a – given our ROIC performance, this is the best use for our excess cash. But as we project for a longer period of time, even with this sustained capacity creation and investing and the growth of the business, our capital structure issue continues to be an issue that is not optimum. So we are reviewing, together with FEMSA, what our course of action will be for this year, and we will provide further details as the year progresses and that analysis moves forward.

Ulises Argote: Thank you. And anything on M&A or is the appetite still there to, kind of, grow inorganically, or do you think that has taken a back seat in terms of your [inaudible] priorities?

Ian Craig: No, I mean, the appetite is there. We would like to go inorganically. The conversations, as for anyone that has followed the system[?], as you saw, for a while, are multiyear conversations. And it really takes an alignment of probably succession issues mostly, or fragmentation issues among controlling shareholders to arrive to the right moment to be able to pull the trigger. I would say our relationships with our peer bottlers in the system are excellent. We're well positioned. It's very difficult to assess the timing of any potential M&A initiative, but it is one of our six strategic pillars in organic – strategic inorganic growth. So the answer is yes, but there is no guidance on probability of success or timing on that.

Ulises Argote: Perfect. Thanks so much for the colour there and congrats on the results again.

Jorge Callazo: Thank you Ulises.

Operator: Thank you. And our next question is from Froylan Mendez with JP Morgan. Please go ahead.

Froylan Mendez: Hello guys. Thank you very much. This is Froylan Mendez from JP Morgan. Can you hear me well?

Jorge Callazo: Yes, yes.

Froylan Mendez: Perfect. Thank you. Just wanted, if you could help me put the comments on the outlook for volumes in Mexico into context, you said mid-single-digit volume growth, but you also said 40 million of unavailability volumes last year, which is around 8% of the volumes. So I'm trying to understand, if there is so much unsold volume and you're increasing your inventory capacity this year, why is the guidance at only mid-single digits? Is there something I'm missing there, if there is so much volume that you could be selling just to – just on the under-capacity, let's say?

Jorge Callazo: Yes. Yes. Thank you for the question. I think it's very important to clarify, because the 40 million unit cases of unavailability, that's not for the quarter. That's a full year figure. Okay? So it's – I know that you're thinking maybe it's for the quarter, and then we could project something additional for growth in terms of volume for Mexico, but that would not be the case. Okay? So I think thanks for the question because that's a good point to clarify. The number 40 million unit cases –

Ian Craig: For the full year.

Jorge Callazo: – is for the full year, okay? It's what we faced basically on unavailability during the 12 months.

Froylan Mendez: Okay. And if I compare – please go ahead.

Jorge Callazo: [Inaudible] – sorry.

Froylan Mendez: No, no. If you could also let me – help me understand, with the efforts that you're doing on the inventory side, because you mentioned that manufacturing capacity will not come until 2026, but with the things that you are doing today that can help fulfil better this unavailability, how should we think about that unavailability with the incremental capacity that you have today? So those 40 million, how will they improve in 2025 with the efforts that you are doing today?

Ian Craig: That gets you to that mid-single-digit guidance that we are giving. So like I mentioned, it's a lower GDP projection. So you'll see – you won't see the pre-election spending that's out there. And that goes against this year's volumes performance. But at the same time, we're getting into high season much better prepared than last year. So, like, if you do those numbers, those 40 million are around 2% with MXN 2 billion[?], Mexico. So that's where we get to the combination to give that guideline – that guidance. Not guidance, sorry, to give that sort of estimate.

Gerardo Cruz: And Froylan, then additionally, in relating to a question that was presented by Rodrigo, regarding inventories and working capital in 2024, I mentioned that we consumed our safety inventories to try to reduce, as much as possible, that uncertain demand that we faced during 2024. So now, not only we have to address the issue of regaining as much as we can of that unserved demand of those out-of-stocks, but we also have to replenish those safety inventories during the year. So that will also continue to be a challenge. We have a doubled impact. We have the benefit of having the three new lines that came online last year, plus one line that is coming online this year. That will certainly help, together with all of the efficiencies in planning and processes that the supply chain team has made, but it's still not an easy challenge to face because we have those two attacks[?] combined.

Froylan Mendez: Excellent. Very clear. Thank you so much.

Operator: Thank you very much. As we have no further questions in the queue, we will turn the call back over to Mr Callazo for any closing remarks.

Jorge Callazo: Well, thank you very much, everyone, for your interest in Coca-Cola FEMSA and for joining us on today's call. We look forward to meeting with you in person soon, I hope. And in the meantime, myself and the Investor Relations team, we are available to answer any of your remaining questions. Have a great day and a weekend. Thank you.

Operator: Thank you very much. That does conclude today's conference. You may now disconnect.

[END OF TRANSCRIPT]