

# Q2 2025 Earnings Call

## Company Participants

- Jorge Collazo, Investor Relations Director
- Ian M. Craig Garcia, Chief Executive Officer
- Gerardo Cruz Celaya, Chief Financial Officer

## Other Participants

- Lucas Ferreira
- Rodrigo Alcantara
- Renata Cabral
- Analyst
- Henrique Morello
- Tiago Bortoluci
- Alvaro Garcia
- Antonio Hernandez
- Fernando Olvera

## Presentation

### Operator

Hello, and welcome to the Coca-Cola FEMSA Second Quarter 2025 Conference Call. My name is Sofia, and I'll be your moderator for today's event. Please note that this conference is being recorded. For the duration of the call, all participants will be in a listen-only mode. (Operator Instructions)

I would now like to hand the call over to Mr. Jorge Collazo, Investor Relations Director at Coca-Cola FEMSA. Jorge, please go ahead.

### Jorge Collazo, Investor Relations Director

Good morning to you all, and welcome to this webinar to review our second quarter 2025 results.

As you have noticed, we migrated our earnings conference call and webcast to a Zoom-based platform to enhance audio quality and ease of connection for all participants. As usual, after prepared remarks, we will open the call for Q&A. To do so, please signal for questions using the Raise Hand feature in your Zoom toolbar.

Joining me this morning are Ian Craig, our Chief Executive Officer; and Gerardo Cruz, our Chief Financial Officer.

Before I hand the call over to Ian, let me 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 full disclaimer in the earnings release that was published earlier today.

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

## **Ian M. Craig Garcia, Chief Executive Officer**

Thank you, Jorge. Good morning, everyone. Thank you for joining us today.

During the second quarter, we faced a challenging environment marked by a softer macroeconomic backdrop in Mexico and adverse weather conditions in Mexico and Brazil. In addition, we faced a tough comparison base driven by the strong results achieved during the same period of the previous year. However, despite the tougher-than-expected first half of the year, our long-term perspectives remain unchanged. We are convinced that our strategy, the implementation of our long-term sustainable growth model and the investments behind capacity expansions are ideally positioning Coca-Cola FEMSA to capture the many opportunities ahead of us.

During our call today, I will begin by summarizing our consolidated results for the second quarter. Then I will take a moment to dive deeper into key markets to provide you with an update on their main operating developments. Finally, Gerry will guide you through our division's performance before closing with an update on supply chain initiatives.

With that, let's move on to the summary of our consolidated results for the second quarter. Our consolidated volume declined 5.5% to 1.035 million unit cases. This contraction was driven by declines in Mexico, Brazil, Colombia, and Panama that were partially offset by growth in Argentina, Uruguay, Guatemala, and the rest of our territories in Central America.

Despite the volume contraction, our revenue management initiatives and favorable currency translation effects led our total revenues for the quarter to grow 5%, reaching MXN72.9 billion. On a neutral currency basis, our total revenues increased 2.4%.

Gross profit increased 3.4% to MXN33 billion, leading to a margin contraction of 70 basis points to 45.3%. This decrease was driven mainly by lower operating leverage and unfavorable mix effects, coupled with higher fixed costs and a year-on-year depreciation of most of our operating currencies as compared with the U.S. dollar. These factors were partially offset by better sweetener costs and favorable raw material hedging initiatives.

Our operating income remained flat at MXN9.7 billion, with OI margin contracting 60 basis points at 13.4%. As was the case during the first quarter, this operating margin contraction was driven mainly by lower operating leverage, coupled with higher operating expenses, such as labor, maintenance, marketing, and depreciation that were partially offset by cost and expense efficiencies and an operating foreign exchange gain.

Adjusted EBITDA for the quarter decreased 3.8% to MXN13.4 billion, and EBITDA margin contracted 160 basis points to 18.4%. Finally, our majority net income decreased 5.3% to MXN5.3 billion. This decline was driven mainly by an increase in our comprehensive financial results that was mainly caused by higher interest expenses and a lower foreign exchange gain, coupled with a higher effective tax rate.

Now, let's switch gears to expand on our operations performance for the second quarter. In Mexico, our volume declined 10%, cycling a historic second quarter from the previous year, which grew 7.9%. Although we saw month-after-month recovery in share trends, the main headwinds for volume performance came in the form of a softer macro backdrop and unfavorable weather. For instance, we faced consistently lower average temperatures throughout the quarter, with June being on average 3 degrees Celsius below the previous year. Perhaps more challenging was the fact that we faced 5x more rain than the previous year. To give you a sense, Mexico City saw the rainiest June in over 50 years, significantly impacting consumer behavior.

In this context, we implemented the following key initiatives focusing on the levers under our control. First, we remain focused on the plan that is delivering positive share results. As I mentioned during our previous call, we adjusted our promotional grid and implemented tactical activities in single-serve and multi-serve. This has allowed us to not only recover our share in the modern channel, but to surpass previous year's levels. In the traditional trend -- trade, the trend

is also positive, and we have closed most of the gap with work to do to fully recover during the second half of the year. Importantly, we have focused our promotional activities on actions that not only address the short-term, but also provide sustainable share of value.

Second, we have developed an affordability plan together with the Coca-Cola Company that leverages marketing campaigns, attractive price points, and relentless execution, especially in the traditional trade. Considering the macroeconomic backdrop and consumer sentiment in Mexico, where personal consumption expense and remittances have entered negative territory, there is a significant opportunity to leverage our affordability platform with initiatives such as upsizing, the adjustment of key returnable packages at attractive price ranges, and executing more than 33,000 dedicated cooler doors to affordability.

Third, we continue to significantly improve execution and our customer service metrics. Our commercial and supply chain initiatives continue to drive improvements in order fulfillment and net promoter score, also achieving historical levels in portfolio coverage.

And fourth, we are focusing on productivity initiatives aimed at enhancing processes and resource allocation, given the evolving macro landscape.

Regarding long-term investments behind capacity expansion, during the first half of the year, we completed key projects and began additional capacity initiatives that are progressing according to plan. For example, in Toluca, we completed the expansion of our warehouse, adding more than 19,000 square meters, and we began operations of a new PET line with monthly capacity of more than 5 million unit cases. To increase capacity in the Bajío [ph] region in San Juan del Río, we completed Phase 1 of our expansion plan, adding a new truck yard and blow molding room. This represents more than 8,000 additional square meters to this plant. Finally, in the Southeast region, we completed the separation of our Villahermosa distribution center from the plant, adding more than 5,000 pallet positions in incremental capacity.

In summary, for Mexico, as a result of a tougher than anticipated first half of the year and a cautious outlook for the second half, our team in Mexico is leveraging winning top-line initiatives together with savings in supply chain, procurement, and IT.

Now, moving on to Guatemala. Our volumes increased 1.6% to reach 51.3 million unit cases. Despite seeing a decline in consumer confidence and the higher propensity to save during the first six months of the year, the implementation of key initiatives is delivering positive results. For instance, we increased our customer base by 10,000 new customers, 28% ahead of target, allowing us to gain sharing key categories, such as sparkling beverages, juices, water, and energy drinks. At the same time, we continue focusing on the fundamentals of the business, strengthening salesforce training, while adding new routes and coolers. As an example, we exceeded our target of installed coolers, reaching 9,700 new coolers installed year-to-date, a 10% increase versus a prior year.

Regarding commercial enablers, we're leveraging Juntos+ and Juntos+ Premia. This quarter, we added 7,000 monthly active users, a 7% increase versus the previous quarter, with more than 60% of these users active on the app, which is 10 percentage points ahead of last March. On the supply chain front, we continue progressing according to plan. We started production of a new can line last April, and a new PET line is currently being assembled. As we enter the second half of the year, we expect to continue improving our profitability in Guatemala by optimizing our portfolio and productivity, all while focusing on rigorous cost and expense control.

Now, moving on to South America. In Brazil, our volumes declined 1.5% year-on-year, cycling strong 12.1% growth achieved last year. In Brazil, whilst the positive macro environment continued, our quarterly volumes were impacted by colder temperatures, especially in June, with São Paulo being on average 3 degrees below the previous year.

Aligned with our long-term strategy, we continue focusing on share growth and profitability. For example, during the quarter, we achieved record share in the non-alcoholic ready-to-drink segment, mainly driven by gains in the sparkling beverage, juices, sports drinks, and water categories. Improvements in the sparkling beverage category are driven

mainly by the recovery of flavors, as additional capacity has allowed us to reduce unavailability. Notably, in the low and no sugar category, Coca-Cola Zero maintains its impressive growth pace, increasing volumes by 56% year-on-year.

Regarding our single-serve mix, we further increased 1.6 percentage points versus the previous year, reaching 27.1%. Our digital customer base grew 12.1%, with 28,000 additional active monthly users and a 12.7% year-on-year increase in average ticket size. The Juntos+ Premia loyalty program reached over 59,000 customers, redeeming points this quarter, up from 18,000 during the same period of last year. Juntos+ Advisors enhanced salesforce performance, boosting geo-efficiency by over 11 percentage points from 85% to 96%, and expanding coverage by more than 5 points for sparkling beverages and over 8 points for non-carbonated beverages.

Additionally, in Brazil, we are looking to continue leveraging our technological advances in order to deliver increased productivity. In order fulfillment, a transformation in culture, training, and improvement in operational processes led to a 3.9 percentage point improvement to reach 93.5%. Our Porto Alegre reopening plan has also been concluded, both in the production and distribution functions, which positions us well to grow during the second half of the year.

Moving on to Colombia. In Colombia, our volume performance improved sequentially, despite facing a still-complex consumer sentiment scenario.

For the quarter, our volumes declined 2.8% year-on-year, as we continued to gain share supported by affordability and execution initiatives in sparkling beverages, teas, sports drinks, and flavored water. Regarding capabilities, we continue to increase our customer base, while expanding our digital capabilities with Juntos+ and Premia Loyalty Plan, as we double down on cost and expense efficiencies that are allowing us to improve profitability.

Finally, in Argentina, our volumes continue recovering at a solid pace, increasing 11.9%. Macro indicators continue improving, and monthly inflation is now below 2%, as our country continues to foster a disciplined financial surplus policy. In this improving macro context, we continue leveraging our strategy to pave the way for long-term growth. We continue offering affordability and promotions, while boosting single-serve growth with a Share a Coke campaign and promotions. As a result, our single-serve mix increased 1.6 percentage points to reach 18.2%. At the same time, we are strengthening our flavors portfolio with campaigns around Sprite and Fanta, leading to 6.2% growth in flavors.

Notably, we are also adding important capabilities to our Argentine operation to enable continuous growth. For instance, we are accelerating digitalization via the rollout of the latest version of Juntos+ and Premia Loyalty Plan, as we increased our digital customer base by 13 percentage points to surpassing 30% of our total customer base. Regarding execution, our customer centricity indicators are all showing improvement, with order fulfillment increasing 1.5 percentage points versus a prior year to reach 98%.

We are confident that despite a tougher-than-expected first half of 2025, we are well-equipped to navigate the current landscape and emerge a stronger, more adaptable organization. We are leveraging the local nature of our business and the right set of initiatives across our markets to recover momentum during the second half of 2025. Our strategy and ambitions remain focused on the long-term, while we have fine-tuned our plans together with our partners at the Coca-Cola Company to achieve our common short and long-term objectives.

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

## **Gerardo Cruz Celaya, Chief Financial Officer**

Thank you, Ian, and good morning, everyone.

I will now proceed to summarize our division's results for the quarter. In Mexico and Central America, volumes declined 8.4% to 636.9 million unit cases, driven by volume declines in Mexico and Panama that were partially offset by growth in Guatemala, Nicaragua, and Costa Rica. Revenues increased 0.5% to MXN45.3 billion, driven mainly by our revenue management initiatives and favorable currency translation into Mexican pesos. On a currency-neutral basis, revenues decreased 1.9%.

Gross profit decreased 2.5% to reach MXN21.4 billion, resulting in a gross margin of 47.2%. A 150 basis point contraction year-on-year. This margin contraction was driven mainly by unfavorable top-line and mix effects, coupled with higher fixed costs, such as maintenance and the depreciation of the Mexican peso as applied to our U.S. dollar denominated raw material costs. These effects were partially offset by revenue management initiatives and lower sweetener costs.

Operating income decreased 6.3% to MXN6.8 billion, and our operating margin contracted 110 basis points to 15.1%. This contraction was driven mainly by lower operating leverage due to volume contraction, coupled with higher operating expenses such as labor, maintenance, and depreciation. These effects were partially offset by lower freight expenses and an operating foreign exchange gain. Finally, our adjusted EBITDA in the division declined 9.7%, with a 220 basis point margin contraction to 19.7%.

Moving on to South America. Volumes decreased 0.5% to 398.4 million unit cases. This decrease was driven mainly by volume declines in Brazil and Colombia that were partially offset by the growth achieved in Argentina and Uruguay. Our revenues in South America increased 13.2% to MXN27.6 billion, driven mainly by our revenue management initiatives, favorable mix, and favorable currency translation effects into Mexican pesos. On a currency neutral basis, total revenues in South America increased 10.3%.

Gross profit in South America rose 16.2%, expanding margins by 110 basis points to 42.2%, mainly due to higher sales, operating leverage, and lower sweetener costs. Currency depreciation partially offset these gains. Operating income in South America rose 19.6% to MXN2.9 billion, with operating margin up 50 basis points to 10.6%. The improvement was mainly due to operating leverage and cost controls, partly offset by higher expenses, such as labor and marketing. Finally, adjusted EBITDA in the division increased 10.4% to MXN4.5 billion for a margin contraction of 40 basis points to 16.2%.

Now, let me expand on our comprehensive financial results, which recorded an expense of MXN1.2 billion as compared to an expense of MXN885 million during the same period of the previous year. This 34.4% increase was driven mainly by two effects. First, an increase in interest expense driven mainly by the new issuance of senior notes due 2035, new financing in Colombia, and higher interest rates in Brazil. And second, we recorded a lower foreign exchange gain as compared to the previous year. These effects were partially offset by a larger gain on financial instruments and in hyperinflationary subsidiaries.

We are improving our supply chain by eliminating infrastructure bottlenecks and digitizing operations to make our company more resilient and adaptable. First, regarding the committed savings I mentioned last February, we continue making progress toward our \$90 million target, reaching \$60 million year-to-date. Approximately \$30 million come from primary distribution, \$20 million come from cost to serve, and \$10 million from cost to make.

Second, our line efficiency continues increasing by focusing on continuous improvement mindset, leveraging our manufacturing operational model, focusing on asset management, and optimizing processes, such as changeovers between different beverages and presentations.

And third, we continue making progress on the installation of the nine new bottling lines planned for 2025. We started a new line in Mexico, one in Guatemala, and one in Colombia. For the second half of the year, we will start production in four lines in Brazil, one more in Guatemala, and one in Costa Rica.

These initiatives are proof that despite a more challenging than expected first half of the year, we remain committed to the long-term, strengthening our supply chain not only by generating savings, but by streamlining our operation, while developing state-of-the-art capabilities to improve our customer service.

With that, operator, we're ready to take questions.

# Questions And Answers

## Operator

(Question And Answer)

## Operator

Okay. At this time, we are going to open it up for questions-and-answers. (Operator Instructions) Our first question comes from Lucas Ferreira with JPMorgan. You can open your microphone.

## Lucas Ferreira

Hi, guys. I hope you listen to me well. I wanted to explore a little bit more your expectations for the second half of the year and the initiatives you're taking to navigate this challenging environment, especially in Mexico. Can you discuss a little bit where your market share stands in both the traditional and modern panels in the country? And then the initiatives you're talking about regarding affordability mix, how to think about, let's say, your average sales price or in other words, your expectations, if you have expectations that you can share about revenue growth for Mexico in the second half of the year would be great.

And then the second question about Brazil. It seems like temperature was a key driver, but anything else you can share about the performance of specifically channels that would help us understand if we should see a rebound in volumes through the second half of the year, given your execution, given the performance of the whole industry and your market share. So, that would be great. Thank you very much.

## Ian M. Craig Garcia, Chief Executive Officer

Hi, Lucas. How are you? It's a two-part question on Mexico and Brazil, really asking us to expand more. So, if you want, Gerry, I'll get into Mexico first and then you can complement me, and then we'll go into Brazil in the same format.

So, the story of Mexico this year, what we saw in the market was, first, for our company, a backlash that ended in April. I would say that after April, that was no longer the conversation. But then we started seeing the economy impacts on volume, and finally, in June, impacts of the economy together with weather. So what the challenging piece of navigating the quarter is when we were looking at volumes, for example, in April and May, those were around 7% below last year. But when you looked at it versus 2023, they were record volumes still. So, they were 5% above 2023.

So, it was a tricky decision for us on what to expect for June, because if we kept the same pattern vis-a-vis 2023, it was going to be a very good June. And if we were going to keep the same pattern versus below 2025 -- 2024, it was going to be a complex June, and it was the latter that happened. So, June was a decline of 15%. So, it was 7%, 7%, 15%, and that ends up with a 10%. And what we saw in June, like I mentioned, was economy plus weather. So, what we're looking at for the second half of the year is we're planning a more conservative scenario, where the economy plays a role. When we're looking at declining personal consumption expenditures and remittances two months in a row in the negative, it's prudent for us to plan that it will be a more complex scenario to navigate.

Now, the corollary of that you asked about market share is how we're doing in market share. So, after the backlash, if we separate this by channels, we're completely above last year in the modern trade channel. And remember, modern trade price compliance is much higher than in traditional. So, we're above that versus last year. And when you're looking at the traditional channel, we're below, but we're below around 1.5 points. So, we're getting there. It's just a

longer journey. And when you break that down, that gap that we have, because you mentioned pricing, is specifically the share point in the MXN20 area, where we're competing against Pepsi, which has the liter 75 at MXN20, and Red Cola, which has, it's two liter at MXN20.

So that's the price point where we still have a gap, and we have very clear initiatives to address that. And in the markets where we've rolled out those initiatives, we don't want to give everything away to our competitors on the call, but the response has been very, very favorable. So I think we have the strategies in place where we can turn around that remaining price point and get to the shares where we want them to get on the traditional channel.

Gerry, would you like to give a little more color on that?

### **Gerardo Cruz Celaya, Chief Financial Officer**

Just I think one last thing to complement Ian, Lucas. Also, all these initiatives coupled with the comp base that we have for the second half of '24. As you remember, the second half of '24, we started seeing in the last week of June, heavy rains in Mexico that impacted volumes, importantly to what we were seeing during the first half of '24.

So in the base, and just all of the initiatives that we're implementing, trying to address the consumer weakness that we're certainly seeing right now, I think we're cautiously optimistic to what we're expecting for Mexico in the second half of this year.

### **Ian M. Craig Garcia, Chief Executive Officer**

Then the other part of your question was regarding Brazil. Brazil is very different than Mexico because it's really very clearly pointing to the weather as that being what impacted in June, basically. So it's really a weather phenomenon. It also hurt a bit in Argentina. And once that transition out in Argentina, everything responded, and we feel the same will happen in Brazil.

In Brazil, we're also leveraging the Juntos+ Advisor tool, which we should be starting to roll out in August, September in Mexico, and the results are just phenomenal. We're seeing like 1% to 2% volume uplifts there on the back of Advisor. And when you look at Brazil, and you break down the share outside of Porto Alegre, where we had lost the plant, and we lost over 8 points of share and are gaining those back very quickly. And you look at the other territories, their share gains above 1%, which are huge. And part of that -- a big part of that -- well, at least a third part of that is the Advisor tool, but we're very excited of bringing that to Mexico. It was a long question, and hence, the long answer, Lucas. I hope that addressed your question.

### **Lucas Ferreira**

Yes. (Multiple Speakers)

### **Ian M. Craig Garcia, Chief Executive Officer**

Gerry, do you have any thoughts on this?

### **Gerardo Cruz Celaya, Chief Financial Officer**

Nothing, nothing additional on Brazil, Ian.

## **Ian M. Craig Garcia, Chief Executive Officer**

Okay.

## **Lucas Ferreira**

Thank you very much, guys. Thanks for the details.

## **Operator**

Our next question comes from Rodrigo Alcantara with UBS.

## **Rodrigo Alcantara**

Hey, hello, Ian, Gerry. Can you hear me?

## **Ian M. Craig Garcia, Chief Executive Officer**

Yes, we hear you now, Rodrigo.

## **Rodrigo Alcantara**

Okay. Awesome. Thank you very much for -- hello. Thank you very much. Hope you're are doing well, Ian and Gerry.

I guess, my question, somehow related on your previous remarks, but now, let's focusing on your price mix, right, on the reported price mix that we saw in the quarter, right? In Mexico, it surprised to me that the price mix actually held quite well, right? So, it was very curious to me, given the backdrop, right, of the promotional spending, et cetera. So, just curious if you can explain to us what's the underlying trends going -- yielding those results on the price mix in Mexico, which held quite well. Also, what to expect for the second half, if it's still a slight premium to inflation could be still be achievable, given the strategies that you just mentioned. So, that would be in Mexico, the pricing.

And also, a different story, I totally agree with you, Brazil, weather, yes, but also, the pricing also surprised to me that also quite, quite strong. So, there the question would be on Brazil, on the, how sustainable you think that price mix is for the second half of the year? Maybe mix was a good component of that price mix in Brazil. So, those would be - essentially, the one question, price mix in Mexico and Brazil. Thank you very much, Ian.

## **Ian M. Craig Garcia, Chief Executive Officer**

Hi, Rodrigo. Just a quick overview, and Gerry and Jorge, if you can complement this.

So, in the case of Mexico, the team, I think, wanted to enter the -- no, I think, the team wanted to enter the high season with a better availability metrics and better serving our markets. And like I said, it was a mixed picture. We were looking at declining volumes versus what was a record 2024, but they were substantially above '23. So, while that picture was in hand, I think we wanted to have the resources there, both in terms of headcount, but also in terms of the adequate price to ensure that once demand pulled in May as it usually does, we were able to serve it. And that's not the picture of what happened in May, June.

So in terms of price, I think now we're working to adjust what I told you is offerings around the MXN20 price points and in multi-serve returnables, making sure we have some key upsizes that we're doing to make sure we catch the



consumer if it continues facing a more challenging scenario. So like I said, the last two data points on consumption, expenditures and remittances were not positive. So we need to be clear that we adjust that section of our OBPPC architecture to make sure we have offerings that catch the consumers that are looking for those price points. So what that reflects in Mexico is a more cautious pricing stance to the end of the year.

In the case of Brazil, I would say it's a different scenario, but I don't expect additionally -- additional prices outside, an inflation line pricing. So for Brazil, I think we have been reflecting more of an increase in single-serve and an increase in Coke no sugar, rather than pricing above our inflation target. That's not the case. It's more of a mixed effect.

Gerry, I don't know if you'd like to complement or --

### **Gerardo Cruz Celaya, Chief Financial Officer**

Very quickly on that last point, Rodrigo. We did see a sharp pickup in single-serve, non-returnable mix during the quarter for Brazil. And as Ian mentioned in prepared remarks, a significant growth in Coke Zero reaching 27% of Coca Cola's mix now, which has been the case throughout the past few quarters with Coke Zero being the top performer.

### **Ian M. Craig Garcia, Chief Executive Officer**

One thing we didn't mention in Mexico, but another bright spot in Mexico was Coke, no sugar. So Coke Zero grew around 27%, if I recall. So it's -- I think we finally cracked the code on Coke Zero in Mexico and it continues to bring traction, even in a tough quarter where we face, we're on the economy, that still continued to outperform significantly. So it should be a source of good news for us going forward, Coke, no sugar in Mexico.

### **Rodrigo Alcantara**

Awesome. Thank you very much for the detailed answers, Ian and Gerry.

### **Gerardo Cruz Celaya, Chief Financial Officer**

Thank you.

### **Ian M. Craig Garcia, Chief Executive Officer**

Thank you, Rodrigo.

### **Operator**

Our next question comes from Renata Cabral with Citi. You can open your microphone.

### **Renata Cabral**

Hi. Hi, everyone. Thank you so much for taking my question. So my question is related to CapEx investments. And I'll break it down into geography. So first, in Mexico, a couple of quarters ago, we were discussing a lot about the CapEx plan of the company. And I would like to understand if there were any change in terms of plans, especially considering that the first half of the year was full of global events, let's say, tariffs. So just to see if the company see the same needs of expansion in CapEx that were discussed before first in Mexico.

And regarding Brazil, similar, but I would like first to understand how is the plant in Rio Grande do Sul operating right now? And also, an update about the CapEx plan here in Brazil. Thank you so much.

### **Ian M. Craig Garcia, Chief Executive Officer**

Thank you, Renata. So let me give you an overview of the strategy and the adjustments, and I'll let Gerry dive into the details.

So when you look at our CapEx plan, you can see it in the following way. There's structural capacity, long-term capacity investments that solve either long-term capacity needs of having the production and distribution assets where we need them, i.e. to not be freighting products for long distances or to deliver savings because of instructional imbalances, for example, leasing warehouses and trucks versus owning them.

And then there are other capacities, other CapEx, which is directly linked to volume. The easiest example of that one is bottles and cases. So the latter one on different markets is what we are adjusting and we always adjust downward when volumes are not there. But we're not adjusting downward the structural capacity CapEx, which, for example, we're in certain places where we have to freight volume long distances and those pay for themselves regardless of whether we're slightly below our projected volumes, okay? So that's the general overview.

And Gerry, you can deep dive into the details for Renata, please.

### **Gerardo Cruz Celaya, Chief Financial Officer**

So Renata, as you remember, we have been talking about CapEx investment for the following couple of years to reach 8% -- between 8% to 9% of our net sales. We continue to be there. What we certainly do and we manage this as a dynamic process is we look at any opportunities that we have for facing the execution of said CapEx. So even though structurally we remain committed to our long-range plan that is based on sustainable growth, we certainly will look for any opportunities in phasing of the projects, large-capacity projects that we have, so that we can manage the expenditure of the cash flows of the CapEx required for each operation.

### **Jorge Collazo, Investor Relations Director**

And Renata, this is Jorge, also to address your question regarding the status of our Porto Alegre plant. So basically, we're back 100% capacity there, both in the production and in the distribution capabilities. There's one additional project that Ian mentioned during the previous call, which is we will build a contention wall around the plant, but this will be a project that will be concluded next year. This will be for 2026. But to give you an idea --

### **Ian M. Craig Garcia, Chief Executive Officer**

Just to add --

### **Jorge Collazo, Investor Relations Director**

Sorry.

## **Ian M. Craig Garcia, Chief Executive Officer**

That project doesn't add anything in terms of capacity. It's just a containment structure to avoid an impact during floods. We did that -- we finished that in Acapulco, by the way. We were "unable to test it" because this hurricane Erick that we had didn't hit Acapulco this year in a strong manner, but that CapEx that is pending will not add capacity increases, just to protect the plant during flooding. Sorry, Jorge.

## **Jorge Collazo, Investor Relations Director**

No, thanks, Ian, for the context. Just the only additional thing that I will add regarding Porto Alegre is to give you an idea on the number of SKUs. So before the flood, for example, May 2024, we had a portfolio of around 225 different SKUs that we were selling there, in Rio Grande do Sul, in Porto Alegre.

At first, when we were out of the plant, we were working in a portfolio that was 30 SKUs in May last year. So, as you might imagine, a big impact, and that affected our share. Now, when you look at the current status, by June '25, we were already working with 180 SKUs, which is around 95% of the volume that we have in Porto Alegre, and by July, now we're back with the full portfolio. So, we're glad that we were able to, in this year's time, get back with the Porto Alegre recovery. The team there definitely did a tremendous job in putting the plant and everything back on their feet, and we're glad that also the community and the state is back.

## **Renata Cabral**

Thanks so much for the color, Gerry, Ian and Jorge.

## **Ian M. Craig Garcia, Chief Executive Officer**

Thank you, Renata.

## **Operator**

Our next question comes from Ben Theurer with Barclays. You can open your microphone.

## **Analyst**

Hi. This is Rahi on for Ben. Maybe more on some of the topics that we've talked about. Can we look more into the beverage category volume changes in Mexico? Your competitor noted decent growth in stills against other segment declines, coughs off flattish growth in 2Q, but some growth in 1Q. Is this just because you're focusing more on sparkling? And I guess, what categories are you maybe focusing on in Brazil and Mexico given the capacity additions and fixes we've just been talking about on the call? Thank you so much.

## **Ian M. Craig Garcia, Chief Executive Officer**

Yes. Thank you, Rahi. Yes, I would say that this is very characteristic of the kind of environment that we faced in Mexico. So usually when we have these more rains, one of the categories that is more impacted when there's colder weather is the sparkling category.

So we did see a little bit of a decline as well on stills as you saw, but definitely the sparkling category, considering that's -- put it -- let me put it this way, it's a category that is a lot for on-the-go consumption, out meals, people moving and

traffic. So that was more impacted. And as you know, most of our volume performance or of our volume mix is regarding the sparkling category. So that is very telling of the kind of environment that we faced in Mexico during the quarter.

And if you could repeat the second part of your question, Rahi, please.

## **Analyst**

Yes, sure, of course. Just for all the capacity adds and the fixes you're saying, getting the SKUs back up in Brazil, is there any categories? I guess, we're focusing on sparkling, but do you intend to put more effort -- sorry, more investment in other categories? Is there any shifts in mix side, like as you said, the single-serve that you guys are implementing through the year?

## **Gerardo Cruz Celaya, Chief Financial Officer**

The capacity seeks to address where those gaps were. What I would say right now in Brazil, I think the latest -- last SKUs that we have pending to get up to full capacity was basically these. So when we're stressing in capacity, we prioritize CSDs, and within CSDs, Coca-Cola brand. So when capacity starts flowing in, the first thing that recovers is flavors, CSD flavors, and then we start recovering NCBs.

So in the case of Brazil, we pretty much are where we need to be in terms of unavailability. And I think that the main constraint is these. And of course, as you know, we don't have a water source in the South, and we just are adding capacity with a new water source in the South. So those will be, I would say, the only two SKUs where we still aren't where we need to be in Brazil, but that's not the lion's share of the volume. It's these in general and water in the South.

## **Analyst**

Yes. That makes a lot of sense. Thank you. Thanks so much.

## **Gerardo Cruz Celaya, Chief Financial Officer**

Thank you.

## **Ian M. Craig Garcia, Chief Executive Officer**

Thank you.

## **Operator**

Our next question comes from Henrique Morello with Morgan Stanley.

## **Henrique Morello**

Hi, everyone. Thank you so much for taking my question. So, I'll let you explore a bit deeper the margins in South America, as the EBITDA margin decline on a year-on-year basis was something that caught our eyes here. So, if you could explore a bit deeper, the components that influenced the margin behavior in the quarter, and if you saw perhaps some pressure from any specific raw material front or any other specific front on that matter, it'd be very helpful.

And maybe more specific on the impact of the reopen of the Porto Alegre plant in Brazil. So, if you could explore if you already saw some positive impact flow into the SG&A savings in the quarter from that front, or how should that help margins in the region going forward would be very helpful as well. Thank you very much.

### **Gerardo Cruz Celaya, Chief Financial Officer**

Hi, Enrique, and thank you very much for your question. So, I'll start with the first part margin EBIT and EBITDA margin in South America.

So, the explanation for having the impact and EBITDA margin is that last year in this quarter is where we took basically all of the write-offs of fixed assets and inventories related to the Porto Alegre plant flooding. So, that's a virtual charge that happened last year that we didn't have this year. So, that helped EBIT margins and not EBITDA given that it's a non-cash effect. So, that's the explanation of the difference. Moving forward, still second quarter, we had a few expenses in POA [ph] related to freight mainly for the few weeks that we had in the quarter still with POA catching up. But we do expect that to be a tailwind for the rest of the year in improving margins in that region.

### **Ian M. Craig Garcia, Chief Executive Officer**

I think, Enrique, the only thing that I would add regarding raw materials in particular, I think we're seeing a stable raw material environment overall. We're seeing better prices of sweeteners. Of course, we have to account, on the other hand, that there was the depreciation against the dollar in terms of dollarized raw materials. So, that pretty much evens out. And we're seeing a we're seeing a stable raw material environment and that's what we expect going forward. So as we continue to see the outlook for the second half of the year in South America, we believe that there will be sequential improvements. We've discussed Brazil and the effect of the reopening of Porto Alegre. So we should be able to continue to improve our performance there regarding top -ine and we anticipate more stable performance also sequentially improving in terms of margin.

### **Henrique Morello**

That's very clear. Thank you.

### **Ian M. Craig Garcia, Chief Executive Officer**

Thank you, Henrique.

### **Operator**

Our next question comes from Tiago with Goldman Sachs. You can open your microphone.

### **Tiago Bortoluci**

Yes. Hi. Good morning, everyone. Ian, Gerry, Jorge, thank you very much for the presentation. It's always great to talk to you guys.

I'd like to move back the discussion, and I know we always talk about this, but to the balance sheet and particularly your leverage position, right? That you have been consistently printing net leverage below 1x, right? We just heard from Coca-Cola Corporation yesterday on their conference call that the refranchising process on their end is not fully

completed yet. So putting both pieces together, number one, is there anything in this final push to rebrand from Coca-Cola that might interest Coke FEMSA? This is number one. And number two, if no, are we getting close to a moment where we might see a higher underlying payout or some extraordinary dividends? How do you think about this? This is my question. Thank you very much.

### **Ian M. Craig Garcia, Chief Executive Officer**

Hi, Tiago. Yes, I think there are some very interesting assets from the Coca-Cola Company in the rebranding process, but we're not being considered as part of those solutions for what's out there. So, yes, that does bring us closer to getting to a point where we need to address this inefficient capital structure, just to the point.

I don't know, Gerry?

### **Gerardo Cruz Celaya, Chief Financial Officer**

That's our position, Tiago. We do expect to be able to provide some light for the market in terms of what we're expecting to do with our balance sheet, I would assume, towards the end of the year, starting of the next year.

### **Tiago Bortoluci**

No, that's great. Thank you very much, Gerry. And Ian, sorry for provoking you, but just a follow-up on this, right? Your wording here is Coca-Cola rebranding. You are not being part of this solution, right? I think -- and the question is to understand your mindset. If it were just for Coke FEMSA, right, would you like to be part of this solution? Do you see value in the options that today are portable for you guys?

### **Ian M. Craig Garcia, Chief Executive Officer**

Like I said, our partnership with Coca-Cola is very, very strong. And where they see that we can add value is in the Americas, and we're perfectly aligned and content with that assumption. And what's available in the rebranding now is outside of the Americas. So there is no complaints from our side. On the contrary, I mean, they're sitting in the driver's seat in that process, and they have a much better sense of who adds the most value to those territories. So it would be very, very out of place for us to say that we can add more value than others when we don't even have the feet on the ground on those territories that are being rebranded.

So I think they're in a better position to say what makes sense, and we're aligned with that position. They have been very supportive towards our plans to grow both organically and inorganically. So nothing to say, but positive things there on our partnership. So what I'm saying is, obviously, as someone who's been in the business for years, we always want to grow and look at what's out there, but it doesn't always make industrial sense when you're looking at it from the Coca-Cola company's global view. So I don't see any misalignment there, Tiago.

### **Tiago Bortoluci**

That's great, Ian. Thank you very much. And maybe I promise a final one to Gerry, a quick one. Gerry, could you please remind us where your FX hedges are for the remainder part of the year?

## **Gerardo Cruz Celaya, Chief Financial Officer**

Certainly, Tiago. So we have, for the rest of 2025, FX hedging positions ranging between 50% to 80% of our dollarized raw material requirements. For example, Mexico, Colombia, on the higher end of that range, 83%, 81% respectively. Then Brazil, Costa Rica, Argentina, and Uruguay, around 50% to 60% of our requirements are hedged. And for 2026, looking a little further out, Mexico has, right now, a 22% hedge position for the whole year. The rest of the operations averaging at around 15% of the requirements for '26.

## **Tiago Bortoluci**

On Mexico, Gerry, any color on the price that you are hedged?

## **Gerardo Cruz Celaya, Chief Financial Officer**

We're -- for 2025, we have an average FX hedge position of MXN20 per dollar, and for 2026, the same.

## **Tiago Bortoluci**

That's great. I'll pass along. Thank you very much, guys.

## **Gerardo Cruz Celaya, Chief Financial Officer**

Thank you.

## **Operator**

Our next question comes from Alvaro Garcia with BTG. You can open your microphone.

## **Alvaro Garcia**

Hey, guys. Thanks for the space for questions. Thanks for taking my question. Two questions, one for Ian on the taste profile -- sort of a bigger picture question on the taste profile of Coke Zero. You made these comments of like finally working in Mexico. And I was just curious of sort of how you think the taste profiles evolved in Mexico, or how the consumer sort of interprets the taste profile of Coke Zero versus Coke with Real Sugar versus Coke with Fructose, which you've increasingly been using in Mexico.

And then a quick question for Gerry on interest expense, popped a little bit higher. You mentioned higher rates in Brazil and obviously, did a little liability management in May. I was wondering, if there was any one-offs in the number for this quarter in interest expense or this is a fair figure to use going forward. Thank you.

## **Ian M. Craig Garcia, Chief Executive Officer**

Hi, Alvaro. How -- good -- thank you for the question. So, I would say in terms of Coke Zero, the geniuses at the Coca-Cola companies, industrial and R&D area are always refining the sweetener generations, getting all the time closer and closer to the taste of Coke original. And I'm sure that has played a role. But I think what played the biggest role in Coke Zero success in Mexico is that we finally put all of the pieces in place.

So, what we see -- we call this the Brazil playbook for Coke Zero. And it's really a playbook that has been leveraged globally by the Coca-Cola Company. And it not only consists of the winning formula, but of having all of the elements of having the right price pack architecture, including entry packs, which we had missed. It also includes the right properties, the right influencers, and the right promotional intensity.

And to us, finally, all of those five pieces of the puzzle were able to put in place in Mexico. What we've seen in other markets is when you have three out of five or two out of five, that doesn't cut it. You need to have five out of five and have it consistently there. We were seeing what the competition was doing, and it was something that we needed to address quickly. We reacted, and now, it's going very well.

And then the other thing we have seen is we really need at least two, ideally three years of very consistent double-digit growth for that thing to get rolling how we want to in Brazil, where it takes on a life of its own.

So we're going to make sure we have the adequate spend and investment behind this brand, because we're not going to replicate the Coca-Cola brand. It's unique. It's the most powerful brand that we have it -- that we have out there, and Coke series is critical for the long-term health of this brand. So we need to take care of it in such an important market of Mexico. But it's more than the flavor profile, although you're right that, that is one very important piece of those five pillars.

## **Gerardo Cruz Celaya, Chief Financial Officer**

Hi, Alvaro. On the net interest expense question, so there were no one-off effects in the quarter. The explanation for higher net interest expenses -- on the interest expense side, more debt issuance that we did at the corporate level for a \$500 bond. We added some bank loans in Colombia for operation purposes, and we have significantly higher interest rates in real in Brazil. So our real-denominated debt became more expensive in the period.

And on the interest income side, even though we have more cash holdings, we had a significant decline in the rate at which we're investing that -- those cash holdings. So that's the explanation. And moving forward, I think it's a fair assessment of where we would be expecting net interest expense to be coming at.

## **Alvaro Garcia**

Great. Thank you very much, gentlemen.

## **Operator**

Our next question comes from Antonio Hernandez with Actinver. You can open your microphone.

## **Antonio Hernandez**

Hi. Good morning. Thanks for taking my question. Just a quick one. And I'm sorry if you mentioned this earlier during the call, but in terms of competition, how are you seeing the different trends across your whole portfolio? Any more color that you could provide there?

And also, you mentioned in the press release that you will make learnings and adjustments to your plans. Just wanted to see if you could provide more light on that, and if that's related as well to competition and the soft consumer environment. Thanks.



### **Ian M. Craig Garcia, Chief Executive Officer**

So I don't know if the question relates to Mexico, but just in terms of competition, what we can mention is the biggest gap that we have is in the traditional channel in the MXN20 price range. That's the biggest share gap, share performance that we have in CSDs. And there we're addressing it via adjustments in our returnable offerings. Then the other gap that we had was in sports drink, where there was a big push from paring and a reaction from Gatorade. But I think we're addressing that and Gerry's responding very well in the latest months on that. So that gives you the overall picture in Mexico.

Anything that you want to add there?

### **Gerardo Cruz Celaya, Chief Financial Officer**

In terms of the adjustments, I think, as Ian mentioned, both in prepared remarks as well as on a previous question, the focus on multi-serve returnable presentations that are dedicated specifically towards the traditional trade with the capabilities that we have of executing an affordable portfolio very directly aimed at the portion of the market that's underperforming in share, I think we'll be able to address the share gap that we still have to close.

### **Antonio Hernandez**

Great. Thanks for the color, and have a nice day.

### **Ian M. Craig Garcia, Chief Executive Officer**

Thank you.

### **Operator**

Next question from Fernando Olvera with Bank of America. You can open your microphone.

### **Fernando Olvera**

Can you hear me?

### **Ian M. Craig Garcia, Chief Executive Officer**

Yes, Fernando, yes.

### **Fernando Olvera**

Perfect. Thank you so much for taking my question. I also have one mainly for Gerry. Gerry, you commented in the initial remarks that -- regarding savings that you basically reached at 67% of the tariff. So I was wondering, I mean, if there is room to seen -- to achieve more savings or above your target now given that we are just at mid-year? Thank you.

### **Gerardo Cruz Celaya, Chief Financial Officer**

Hi. Fernando, thank you very much for your question. We certainly are working on bringing in more savings and what I talked about in prepared remarks are specifically supply chain related savings. I had talked about early in the year of \$90 million that we were looking for. Up to now, we've achieved \$60 million of those. We certainly are looking for more opportunities, and we do believe that we will be able to bring some more. And additionally, from supply chain savings, we'll certainly work and are working on all sources of savings that we can capture just to help through what has been and we expect to continue to have soft market conditions.

### **Fernando Olvera**

Great. Perfect. And any idea of how -- I mean, how much can you surpass that target?

### **Gerardo Cruz Celaya, Chief Financial Officer**

I think we can provide more details to you guys as we progress. We have some numbers that we have already identified in terms of savings, some that we have already captured and some that are coming, but I think we need to get into a little bit more detail to be able to provide you with a guidance number.

### **Fernando Olvera**

Okay. Perfect. Thank you, Gerry.

### **Operator**

Thank you. This concludes the question-and-answer section. At this time, I would like to turn the floor back to Mr. Jorge for any closing remarks.

### **Jorge Collazo, Investor Relations Director**

Thank you very much, everyone, for your interest in Coca-Cola FEMSA and for joining us on today's call. Me and the rest of the Investor Relations team, we are available to answer any of your remaining questions. Thank you very much, and have a great day.

### **Operator**

Thank you. This does conclude today's presentation. You may now disconnect, and have a nice day.

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