



Q2 2026 Earnings Call

Company Participants:

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

Other Participants:

- Alejandro Fuchs, Analyst, Itau
- Alvaro Garcia, Analyst, BTG Pactual
- Antonio Hernandez, Analyst, Actinver
- Carlos Laboy, Analyst, HSBC
- Emiliano Hernandez, Analyst, GBM
- Felipe Ucros, Analyst, Scotiabank
- Fernando Olvera, Analyst, Bank of America
- Froylan Mendez, Analyst, JP Morgan
- Henrique Brustolin, Analyst, Bradesco
- Henrique Morello, Analyst, Morgan Stanley
- Renata Cabral, Analyst, Citi
- Ricardo Alves, Analyst, Morgan Stanley
- Rodrigo Alcantara, Analyst, UBS
- Thiago Bortoluci, Analyst, Goldman Sachs
- Benjamin Theurer, Analyst, Barcalys

Presentation

Operator

Hello, and welcome to the Coca-Cola FEMSA's Second Quarter 2026 Conference Call. My name is Vinicius, and I will 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 listen-only mode. You will have the opportunity to ask questions at the end of the presentation. (Operator Instructions) I would now like to hand the call over to Pamela Ortiz, Investor Relations Director at Coca-Cola FEMSA. Pamela, please go ahead.

Pamela Ortiz



Good morning, everyone, and welcome to Coca-Cola FEMSA's second quarter 2026 results conference call. Today, we are joined by Ian Craig, our CEO; Gerardo Cruz, our CFO; and the rest of the Investor Relations team. Before we begin, let me remind all participants that today's conference call may include forward-looking statements that should be considered as good faith estimates made by the company.

These forward-looking statements reflect management 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 additional details, please refer to the full disclaimer in the earnings release that was published earlier today.

After the prepared remarks, we will open the call for questions. To ask a question, please use the raise hand featured in your Zoom toolbar. With that, let me turn the call over to Ian, our CEO, to begin our presentation about the second quarter results. Ian, please go ahead.

Ian M. Craig Garcia

Thank you, Pamela. Good morning, everyone. Before reviewing our second quarter results, I would like to take a moment to address the earthquakes that struck Venezuela on June 24th. This unfortunate tragedy resulted in loss of lives, thousands of injuries and significant displacement across affected communities. It has impacted many people throughout the region, including employees of Coca-Cola FEMSA, Venezuela and their families. We extend our deepest condolences to those who have lost loved ones and express our solidarity with everyone affected by this tragedy. Our immediate priority has been to support our employees and their families as well as the impacted communities.

With broader support from FEMSA and the Coca-Cola Company, we are contributing to the humanitarian response, including the donation of more than 100,000 liters of water and other essential emergency supplies to communities in needs. We remain cautiously engaged with the team on the ground and we'll continue supporting our people and the broader community as recovery and rebuilding efforts progress.

Now let me walk you through our consolidated results. Our second quarter showed sequential improvement at the consolidated level, driven mainly by record second quarter volumes in Brazil, Colombia and Guatemala, where we continue to drive growth in the industry. At the same time, Mexico continued to face headwinds from the excise tax increase and a softer consumer environment against this background, we remained focused on implementing our sustainable long-term growth model, continuing to gain

share across markets and categories and capitalizing on the FIFA World Cup opportunity.

The FIFA World Cup represented a buy -- brand-building platform across our territories this quarter. We executed a comprehensive 360-degree plan combining exclusive customer promotions such as Panini stickers, special edition cans, FIFA merchandise and our red tide execution around stadiums, particularly in Mexico City, Fan Fests and on premise channels. This integrated approach strengthened consumer engagement, translated into incremental demand and reinforced the positive momentum of our brands throughout the quarter.

The final tally of the FIFA World Cup resulted in new highs in key Coca-Cola trademark brand engagement metrics such as reputation, positive buzz, purchase consideration among others. Across our operations, reinforcing the platform's role as a long-term brand building investment.

Moving on to our quarterly results. Consolidated volume for the second quarter grew 3.5% to reach 1.1 billion unit cases. This growth was driven mainly by volume increases across most of our operations, partially offset by a volume contraction in Argentina. Total revenues for the quarter grew 4.7% to MXN76.3 billion. This increase is explained mainly by our volume growth and revenue growth management initiatives, which were partially offset by unfavorable mix and currency translation effects.

On a currency-neutral basis, total revenues increased 6.6%. Gross profit increased 8.8% to MXN35.9 billion, leading to a margin expansion of 180 basis points to reach 47.1%. This positive performance was driven mainly by favorable sweeteners and PET costs as compared with the previous year, reflecting the benefits of our disciplined hedging strategy together with the appreciation of most of our operating currencies as applied to our US dollar denominated raw material costs.

These effects were partially offset by higher aluminum costs. On a currency-neutral basis, gross profit rose 10.7%. Operating income rose 9.1% to MXN10.7 billion, while operating margin expanded 60 basis points to 14%. This positive performance benefited from the recognition of MXN265 million in recovered insurance claims in Brazil.

Excluding this insurance recovery, operating income would have increased 6.4% with operating margin expanding 20 basis points to 13.6%. Our operating leverage and expense efficiencies, particularly in labor and rent, drove this normalized margin expansion. These benefits were partially offset by higher freight and marketing

expenses as well as a lower operating foreign exchange gain compared with the prior year.

Adjusted EBITDA for the quarter grew 12.1% to MXN15 billion and EBITDA margin expanded 130 basis points to reach 19.7%. Excluding the effects of insurance claim, adjusted EBITDA grew 10.1% and EBITDA margin expanded 90 basis points to 13% -- to 19.3%. Finally, our majority net income grew 16.9% to MXN6.2 billion, mainly reflecting higher operating income and a lower effective tax rate. This growth was partially offset by an increase in our comprehensive financial result, which Gerry will discuss in more detail later.

Turning now to our key markets. Let me highlight the main operational and strategic developments during the quarter. In Mexico, volumes increased 1% year-over-year. As I mentioned earlier, our quarterly results continue to reflect headwinds from the excise tax increase and softer consumer dynamics. However, our sustainable growth strategy, supported by strong commercial execution and the FIFA World Cup continued to deliver share gains, which will enable us to emerge stronger and return to growing the industry.

Being a host country for the FIFA World Cup represented an important brand engagement opportunity for Mexico specific. Incremental demand was primarily generated in host cities through fan fest activations and other consumer touch points, while non-host cities experienced a more limited impact.

For its part, Powerade delivered an uplift of 150 basis points of market share while generating strong positive brand buzz, supported by its prominent role within the FIFA World Cup activations and a dedicated 360-degree commercial plan that included the launch of Powerade Zero and limited edition flavors. Perhaps more importantly, the quarter demonstrated the effectiveness of the strategy we implemented following the excise tax increase, designed to deliver sustainable growth, strengthen our competitive position and ultimately to return to growing the industry, this strategy was built on four complementary pillars.

First, we adopted a differentiated our revenue management approach, improving our relative price positioning in regions with high competitive intensity. As part of this pillar, we continued reinforcing affordability through returnable and multi-serve presentations. Returnable offerings, including our two liter PET returnable presentation, have successfully expanded household penetration without cannibalizing our one-way portfolio.

Second, building on the momentum of the Coca-Cola Zero playbook, we continued expanding this segment, which grew 24% year-on-year while leveraging the FIFA World Cup, as I previously mentioned. Third, we strengthened our core flavors portfolio and heritage brands, ensuring consumers can access their favorite beverages across multiple price points and consumption occasions.

Fourth, we innovated and launched offerings in underrepresented segments such as our recent launch of Ciel Aguas Frescas, which has been positively received by consumers. Supported by our state of the art digital initiatives these four pillars have translated into a stronger competitive position across channels.

For instance, our Juntos+ platform maintained strong momentum with digital sales now representing 38% of the traditional trade and 19% of total revenues. We strengthened execution at the point-of-sale by increasing purchase frequency, improving average ticket and expanding cooler coverage.

Looking ahead, we expect the consumer environment in Mexico to remain subdued. We will continue strengthening our competitive position to affordability, accessible price points, innovation and digital execution, positioning us well to deliver profitable long term growth.

In Guatemala, volumes grew 3.4% year-over-year, supported by a stronger consumer environment and disciplined execution across our portfolio. Economic activity continued to improve during the quarter, supported by stronger household consumption and resilient remittances, which grew 7.5% year-over-year.

Looking ahead, GDP growth should remain supported by consumption, remittances and favorable demographics with a population increasing approximately 1.3% annually, which is above the broader Latin America average. In this context, our strategy remains focused on unlocking volume opportunities to market development and consistent execution.

We continue to drive per capita consumption by expanding affordable price points and strengthening our one-way and multi-serve portfolio. This approach supported strong momentum in sparkling beverages, where our share increased by 90 basis points year over-year. We also expanded our flavors portfolio with a more competitive and differentiated portfolio, enabling us to reach more consumers and consumption occasions beyond the strength of brand Coca-Cola.

We continued accelerating consumer expansion -- customer expansion by capturing white space opportunities and investing in coolers. Our customer base grew 5.2% to



approximately 156,000 customers, while cooler coverage increased 40 basis points to 78.8%.

Overall, Guatemala offers a compelling combination of healthy consumer fundamentals, favorable demographics, expanding customer coverage and significant room to increase per capita consumption. We remain confident in our ability to convert these opportunities into sustainable volume growth and profitability over time.

Turning to Brazil, where our volumes increased a solid 5.2%, despite high interest rates, low unemployment and real income growth continued providing support for consumption. In this environment, our Brazil operation continued to outperform the industry through disciplined commercial execution and digital capabilities, as well as by capitalizing on the FIFA World Cup opportunity.

As a result, we continued gaining share across key categories with the non-alcoholic -- within the non-alcoholic ready-to-drink industry. Our core portfolio delivered growth across our three main bets. First, within our Zero Sugar portfolio, Coca-Cola Zero grew 15% and Sprite Zero grew triple-digits. Second, flavors reached double-digit growth supported by Sprite and Fanta. And third, Stills delivered 23% growth, driven mainly by Monster, Teas and Sport Drinks with Powerade.

In Sparkling Beverages, our single-serve mix was another highlight of the quarter, improving 2.6 percentage points compared to March 2026, reaching 28%. We drove this result by capitalizing on the FIFA World Cup and Panini exclusive stickers in our 600 ml brand Coca-Cola presentations. This not only increased transactions but also provided a positive tailwind to our profitability.

We also continue to strengthen our commercial capabilities through digital transformation. We're leveraging Juntos+ Advisor, our next generation platform, to provide supervisors and frontline teams with better insights, suggested ordering capabilities and enhanced commercial execution. These investments are helping to improve assortment quality, increase average ticket and further strengthen customer relationships.

Looking ahead, we expect election related spending and strong execution to support the second half of the year, while we continue to closely monitor regulatory developments that could result in a more challenging backdrop in 2027. However, we remain confident in the long-term growth opportunity of the Brazilian market and in our ability to continue delivering long-term growth.

Turning to Colombia. Volumes increased 17.7% year-over-year, supported by minimum wage increase, an improving consumer environment and strong execution across our

portfolio. Macroeconomic indicators continued to improve during the quarter. Unemployment declined to 8% in May, its lowest level for that month since 2001, while consumer confidence reached the strongest sustained recovery since 2015. Although job creation remains supported in-part by the public sector and labor informality remained structurally high. The overall macroeconomic backdrop points to a gradual improvement in the consumer environment.

Our affordability strategy in Colas continued to deliver results supporting further market share gains in the one-way portfolio, at the same time, we continued strengthening our position in flavors, delivering 27.2% quarterly volume growth, supported mostly by QuAtro, our grapefruit flavor and Sprite.

We also continued advancing our strategy in Still beverages by prioritizing profitable growth in margin-accretive categories. Powerade and Monster were among the strongest performing brands during the quarter, allowing us to capture attractive growth opportunities, while improving the quality of our portfolio.

Our digital capabilities remained another important driver of execution. To our Juntos+ platform, we continued increasing customer engagement, helping us to improve ordering frequency, strengthen assortment and deepen our relationships with our customers. Overall, Colombia delivered a strong combination of volume growth, share gains and operating leverage, underscoring Colombia as one of our key growth markets.

In Argentina, volumes decreased 2.8% year-over-year, mainly reflecting a truck driver strike that affected the beverage industry within our region, together with continued softness in consumer demand. Although macroeconomic conditions have continued to stabilize, the recovery in consumption has been slower-than-anticipated with consumers increasingly prioritizing value and affordability in their purchasing decisions.

Against this backdrop, our strategy remains focused on strengthening affordability, while continuing to refine our revenue growth management capabilities to ensure consumers have access to the right price pack architecture options across channels and occasions. This approach has enabled us to preserve the affordability of our core Sparkling portfolio, while strengthening our competitive position, contributing to a 100 basis point increase in our CSD market share.

We also continued reinforcing our leadership in flavors, mostly capitalizing on the strong momentum of Sprite. Beyond Sparkling beverages, we remain focused on growing profitable NCB categories, which posted year-over-year volume growth. While the competitive environment remains intense, particularly with increased pressure

from value-oriented and B brand offerings, we remain confident that our affordability strategy, disciplined commercial execution and balanced portfolio position us well to continue strengthening our competitive position as consumer demand gradually recovers. This quarter once again demonstrated the value of our long-term sustainable growth model. While Mexico navigated a more challenging consumer environment, we are laying the foundations to emerge stronger and grow our industry.

In our South American operations, particularly Brazil and Colombia, we continue to deliver industry growth, strong volumes and profitability. This geographic diversification, together with our ability to capitalize on markets with stronger momentum while maintaining disciplined execution across the region continued to support our consolidated results. With that, I will hand over the call to Gerry to expand on our division's results.

Gerardo Cruz Celaya

Thank you, Ian, and good morning, everyone. Expanding our division's results for the quarter. In Mexico and Central America, our volumes increased 1.4%, supported by volume growth across all territories in the division. Revenues were flat at MXN45.4 billion as our volume growth was offset by unfavorable mix and currency translation effects into Mexican pesos.

On a currency-neutral basis, revenues increased 2%. For its part, gross profit increased 3.9% to reach MXN22.2 billion, resulting in a gross margin expansion of 170 basis points to 48.9%. This margin expansion was driven mainly by lower raw material costs, particularly for sweeteners and PET, reflecting the benefits of our hedging strategy together with the appreciation of the operating currencies in the division as applied to our US dollar denominated raw material costs.

Operating income in the division declined 7% to MXN6.4 billion and our operating margin contracted 110 basis points to 14%. This decline is mainly explained by higher expenses such as marketing and freight, coupled with a lower operating foreign exchange gain as compared with the prior year. These factors were partially offset by operating expense efficiencies such as labor. Finally, our adjusted EBITDA margin and EBITDA margin in the division remained flat at MXN9 billion and 19.7% respectively.

Moving on to South America. Volumes increased by a solid 6.9% to 426 million unit cases. This increase was driven mainly by volume growth in Brazil and Colombia that was partially offset by a volume contraction in Argentina. Revenues in South America increased 11.8% to MXN30.9 billion, driven mainly by volume growth and revenue

management initiatives, which more than offset unfavorable currency translation effects into Mexican pesos from most operating currencies in the division.

On a currency-neutral basis, total revenues in South America increased 14.1%. Gross profit in the division increased 17.7% to reach MXN13.7 billion and gross margin expanded by 220 basis points to 44.4%, driven mainly by favorable mix coupled with lower raw material costs and the appreciation of most of our operating currencies as applied to our US dollar-denominated raw material costs. These effects were partially offset by higher aluminum and secondary packaging costs.

On a currency-neutral basis, gross profit increased 20.1% year-on-year. Operating income in South America rose 46.5% to MXN4.3 billion, while operating margin expanded 330 basis points to 13.9%. As I previously mentioned, this quarter, we recognized insurance claims in Brazil for MXN265 million. The improvement in operating income was driven mainly by operating leverage, coupled with expense efficiencies such as rentals and labor. These efficiencies were partially offset by higher marketing and freight expenses.

Finally, adjusted EBITDA in the division increased 35.6% to MXN6.1 billion for a margin expansion of 340 basis points to 19.6%. Now let me expand on our comprehensive financing results, which recorded an expense of MXN1.3 billion as compared to an expense of MXN1.2 billion during the same period of the previous year.

For the quarter, the increase was driven mainly by the following factors. First, we recognized higher net interest expense, mostly as a result of the issuance of new debt during the first quarter of 2026. Second, we recognized the lower gain in financial instruments of MXN88 million compared to a gain of MXN154 million in the prior year, primarily reflecting the valuation of matured financial instruments and lower rates in Brazil.

Finally, these effects were partially offset by a higher foreign exchange gain of MXN96 million during the quarter as compared to a gain of MXN55 million in the same period of the previous year. This was driven mainly by the appreciation of the Mexican peso as applied to our US dollar-denominated net debt. As I mentioned during our previous earnings call, the global commodity environment remains volatile. As such, we continue to lean on well-established protocols and governance structures that enable us to plan, respond and adapt effectively our hedging -- our hedging strategy.

Providing an update for this year, we have hedged 65% of our PET requirements, 96% of sugar, 98% of HFCS and 73% of aluminum. In addition, following our policy, we are already taking hedges for 2027, resulting in 80% for sugar, 80% for HFCS and 54% for



aluminum, which allows us to reduce short-term volatility and provide visibility for the upcoming year.

This disciplined hedging strategy, together with our continued focus on cost and expense optimization provides greater visibility over our input costs, allowing us to plan ahead with greater confidence while protecting margins over-time.

Let me briefly address our capital allocation priorities. First, we will continue investing behind the business to support long-term profitable growth. While our capital intensity is naturally moderating after several years of expanding our capacity, for 2026, we continue to expect CapEx to be between 7% to 7.5% of revenues. At the same time, we continue to invest selectively where additional capacity is needed.

Recent examples include the inauguration of our new PET production line in Costa Rica and our new aluminum can line in Uruguay. Both of which enhance our manufacturing capabilities and position us to support future growth across those markets. Second, we remain attentive to M&A opportunities that meet our strategic and financial criteria. We have a strong track record of disciplined capital deployment and that approach remains unchanged.

Third, returning capital to shareholders continues to be an important component of our capital allocation framework. We have been conducting a comprehensive review to evaluate the alternatives available and we will share updates as this process evolves.

Turning to sustainability. The Mexican Stock Exchange recognized Coca-Cola FEMSA with the Best Total Score in Mexico CSA 2025 award, positioning us as the leading sustainability performer among the listed companies evaluated. We also received the highest distinctions in the environmental, governance and economic categories. These recognitions reflect the consistence -- the consistent execution of our sustainability strategy and its integration across our operations.

Before turning over the call for questions, I would like to share an update regarding our Investor Relations team. As you may have seen in this morning's earnings release, Pamela Ortiz will become Director of Investor Relations. Pamela brings an extensive experience in capital markets and Investor Relations, including her previous role as Investor Relations Manager at FEMSA. Jorge Collazo who has been part of the Coca-Cola FEMSA Investor Relations team since 2016, will take on a new responsibility as Strategic Planning Director for Coca-Cola FEMSA Brazil.

In addition, Lorena Martin, currently Investor Relations Manager, will assume a new role as FP&A manager at our LATAM division, while Natalia Sarinana will become Investor



Relations Manager. The team has been working closely together to ensure a smooth transition and continued support for our investors and analysts.

With that, operator, we're ready to open the floor for questions.

Questions And Answers

Operator

Okay. At this time, we are going to open it up for questions-and-answers. (Operator Instructions) Our first questions come from Alvaro Garcia from BTG. Sir, your microphone is open.

Q - Alvaro Garcia

Hi, Ian, Gerry, Pam. Thanks for the space for questions. I'll let other analysts ask about Mexico. I wanted to ask about Monster in Brazil. I was wondering if you could maybe unpack how much of that growth is coming from household penetration versus geographic expansion within your territory. And maybe if you could just comment from a broader perspective, how much it complements your portfolio in Brazil? Thank you.

A - Pamela Ortiz

Hi, Alvaro this is Pamela. So basically the Energy Drinks category in Brazil has been performing quite strongly. We have CAGR of the last four quarters, it's been growing around 25% growth. So overall, we believe that we are capturing share versus other competitors. This has been boosted mainly by portfolio innovation, which we have launched a couple of new flavors and also complementing a lot our strategy together with sports drinks and CSDs overall.

A - Ian M. Craig Garcia

Alvaro, in terms of household penetrations versus geographic expansion, coverage does continue to increase. And we track it continue to increase. So there is not really geographic expansion, but improvement in coverages per se. And improvement in household penetration, you have to -- it's worthwhile to consider that these categories has a bunch of tailwinds, including GLP-1s.

It's amazing what's happening in energy. Half of its volumes are now in Zero Sugar or NoCal offerings. So we only expect positive things from Monster and it's really performing well across all geographies, not only in Brazil, but everywhere.

Q - Alvaro Garcia

Thank you very much.

A - Ian M. Craig Garcia

Thank you, Alvaro.

Operator

Our next question comes from Ben Theurer for Barclays. Sir, your microphone is open.

Q - Benjamin Theurer

Yeah, good morning. Thanks for that. Ian, Gerry, Pam and Alvaro, thanks for letting me ask that Mexico question. So on that, I hope it would be great if you could help us unpack a little bit the performance throughout the quarter, especially considering we had a couple of easier comps last year from very bad weather, if I remember right.

So I wanted to understand a little bit the dynamics throughout the quarter and in line with that, what your expectations are for the back-half just considering that relatively soft consumer and probably continued headwinds from those tax increases that we got with the beginning of the year. Thank you very much.

A - Ian M. Craig Garcia

So Ben, you're right, the volumes improved sequentially. So if we look within the quarter, the first two months were negative, slightly negative, around the 3.5% range. And then June, it ticked up to a growth of over 12%. But that, like you rightly pointed out is mostly due because of the comps.

We have seen trends continue to improve. So that's good for Mexico. And I think we have quite a bit of share cushion in Mexico. So going forward, I think this leaves us room to consider -- starting to catch up the -- what we had of the gap left in pricing with inflation. So things are looking slightly improved in Mexico, but I would say the environment competitive wise and consumption-wise is still challenging. So you're right, you know the comps get easier. We have built a share cushion, but I wouldn't say we are off to the races in Mexico because there's still a sluggish consumer environment overall.

Q - Benjamin Theurer

Okay, perfect. Thank you very much.

A - Ian M. Craig Garcia

Thank you.

Operator

Our next question comes from Henrique Brustolin from Bradesco. Sir, your microphone is open.

Q - Henrique Brustolin

Hello, everyone. Thank you for taking my question. I would like to follow-up precisely on the point of pricing in Mexico. We saw another quarter of realized prices slightly down year-on-year. So if you could help qualify the impact that mix had here from the impact that actual price increases have or not have taken?

And if you could just expand on the comment of catching up pricing with inflation going forward on how you are thinking about that. That would also be really helpful in thinking the second half of the year. Thank you.

A - Ian M. Craig Garcia

So, hi, Enrique. So I'll give a broader context on the strategy, I have -- which we've touched upon in prior calls and then I'll let Gerry go through the impacts, which were mostly mix. So what we did this year going through the tax increase and knowing that we had a really challenging consumption environment as well is we ended up passing about 85% of the total impact that we had between tax and inflation. So we didn't pass-through everything.

And the rationale with that was using our models and what we had learned from prior exercises, we believe this modeled a better outcome. So just to give context in the last time we had such a large IEPS price increase was 2013, 2014. In that year, we transferred a lot of price, cost plus the tax and that resulted in 190 basis points of share loss, which then rolled over into 500 basis points of share loss for continued share loss for over eight years, which we finally arrested in 2023 when we started to grow again share.

So this time we were more -- a little bit more conservative. I think it played out perfectly because it was a big increase nonetheless for our consumers. So it was very tough, but we did not want to lose household penetration and consumer preference. And I think we've managed to do that, share responded. So now we have enough of a share cushion build that we can continue to pass-through in price what -- and catch up with inflation, which we hadn't done. So we should be able to finalize that in August and with the caution that we have, we should end up the year positively.

It's always an uncertainty because you don't know how things are going to react. But I think our -- what our models tells us is we should be able to do it and end of the year, improving our relative competitive position. That's overall as a strategy. And maybe, Gerry, if you can help expand on the price mix effects, which were the main culprit, I believe.

A - Gerardo Cruz Celaya

Yeah. Thank you, Ian, and Thank you for the question, Henrique. As Ian mentioned, I think even though we usually expect when we see a tough disposable income situation like the one we're facing this year in Mexico, given the increase in the excise tax, we usually see mix shifting significantly towards more affordable packaging alternatives.

But this year has been especially strong. Mix has been shifting significantly towards one-way multi-serve presentations, especially the 3 liter. And I would say that it's a kind of a positive and negative situation. The impact that we see in mix flows through our P&L, but I think it's positive that we continue seeing consumers deciding for purchases within our portfolio of alternatives.

So we maintain our positioning with consumers within households, which should position us well for the recovery year after the excise tax gets cycled. So as Ian mentioned, given the share that we've built, the share cushion that we've built during these past few months, we expect to close the inflation gap that we still have for the remainder of the year, which should give us a little bit of a tailwind for our P&L as the year progresses.

Q - Henrique Brustolin

That's really helpful. Thank you.

Operator

Our next question comes from Fernando Olvera with Bank of America. Sir, your microphone is open.

Q - Fernando Olvera

Hi, good morning. Thanks for the space for questions. I have two follow-ups in regarding Mexico and just one more question. The first -- the first one is the related to volumes. Do you still see the minus 2%, minus 4% for the year, based on year-to-date volume and consumers' behavior? And the other one is, I remember that in the first quarter, no competition was aggressive. So if you can comment on that of how competition behaved during this quarter would be great.

And the last question is regarding your margins in Mexico. Now we saw gross margin expanding 170 basis points and then operating margin contracting 110. So can you give us more color about that contraction of how much came from freight expenses and how much from marketing? And in the case of marketing, I also want to check with you if the increase was mostly related to the Soccer World Cup? Thank you.

A - Ian M. Craig Garcia

Hi, Fernando. So in terms of -- you asked about volumes, competitive intensity and then with that, I'll hand it over to you, Gerry. I'll take that first two.

Q - Fernando Olvera

Thank you, Ian.

A - Ian M. Craig Garcia

So, in terms of volume, Fer, I think like I mentioned in Ben's question. So trends have started to improve partially because of the base effect. But with this improvement, I would say we should be able to move our guidance from the slightly negative to flattish. So for us, it now should be flattish volumes, right, plus/minus.

So that's what we should expect for full year. I would like to see the -- how volumes respond once we finished the August adjustment to recover inflation. So that's why I'm still keeping flattish, okay. Fer.

Q - Fernando Olvera

Okay.

A - Ian M. Craig Garcia

For -- in terms of competitive intensity, it remains very high in Mexico. But like I mentioned, we were quite conservative. We leverage our models to the fullest all of our intelligence and it worked very well.

So I mean, we're gaining like half a point of share of NARTDs in Mexico. So it's a lot of share gains, almost 0.7 in CSDs. So everything in Mexico is green in share, everything. Every single segment are stills, fruit drinks, teas, water, energy, sports drinks, ARTDs. So we've built a cushion.

And like I said, now we can move. It'd be too early to say if we can adjust the guidance to above flattish because precisely, we need to adjust in August and see how consumers digest this completion of the inflation pass-through. Gerry?

A - Gerardo Cruz Celaya

So for your second part of the question, Fer, regarding operating margin, we did see impacts mainly coming from three factors. First one, freight. We saw a 20% increase in freight expense versus the previous year. Then we had and I mentioned it during the prepared remarks, we had a smaller operating FX gain as compared to the same period of last year, which accounted for a significant portion of that margin deterioration in this quarter.

And third, and connecting it to your last part of the question, marketing expense was 9% higher. This was the biggest factor impacting operating margin. And as you well point out, our budget for marketing this year was front-loaded to the first part of the year to support the World Cup initiatives that we -- I think executed quite well during the first half of the year.

Q - Fernando Olvera

Okay. So in that case, it's fair to assume that it will normalize in the second half?

A - Gerardo Cruz Celaya

We expect for the second half of the year, a better comps in terms of marketing expense, but that should be the case. The factor that we can't foresee quite in the same way as the FX impact that we -- that we had during the second quarter.

Q - Fernando Olvera

Great. Thank you, Ian and Gerry.

A - Ian M. Craig Garcia

Thank you, Fernando.

Operator

Our next question comes from Froylan Mendez with JP Morgan. Sir, your microphone is open.

Q - Froylan Mendez

Hello, guys. Can you hear me well?

A - Pamela Ortiz

Yes.

A - Ian M. Craig Garcia

Hi, Froylan.

Q - Froylan Mendez

Thank you. Hi. Hi. Hi. So I just wanted to understand your thoughts and maybe the lessons learned from the growth in Brazil regarding the Zero portfolio translated into Mexico. We are seeing obviously very strong growth, but how are you able to distinguish between how much of the growth of Zero is, let's say, incremental to the category versus your customers switching from the full sugar to the Zero?

And at what point do you think Zero becomes like the true growth driver for Mexico to grow beyond, let's say, the run rate that we have seen in the past couple of years?

A - Ian M. Craig Garcia

Hi, Froylan. So look, I think your question is very, very important. So, what we've seen across markets when we start to implement the Brazil playbook for Coca-Cola Zero is this consistent either high single-digit or double-digit or double-digit growth year-over-year. And it's very important that we follow all of those elements in the playbook.

The first years of that playbook, usually Coke Zero sources growth from competitors juices and even waters. It doesn't cannibalize in a major way, at least at first. So for example, in Mexico, we are around 4% mix. So it's very, very small mix. In Brazil, we're at 30% mix. When we do start to see cannibalization and like you said, switch from Coke original to Coke Zero is around that 20% mix.

Of course, every market is different, but this is more or less the experience that we have had. So we do have markets above that 20% mix such as Argentina, Uruguay, I think Costa Rica is there as well. But those markets, there is incremental growth, but there's also a large cannibalization.

All of the rest, Mexico at 4%, Guatemala is, I don't even think gets to 2%. The rest are around Colombia 9%. There's plenty, plenty of incremental volume to come. And that's what we're seeing in Coke zero. We're also starting to experiment and learn with Sprite. Sprite is a jewel that the system has that we didn't exploit, connects very well with Gen Z-ers and it's something that should also follow that type of trend.

So we're betting a lot on Sprite and leveraging Sprite Zero and I hope to start bringing good news on Sprite going forward. But it's the same sort of playbook there. I don't know if that's helpful.

Q - Froylan Mendez

It is very, very helpful, Ian. And if I could, I had a second question just on Brazil and Colombia, very strong results in the first half, second quarter. What could be different in second half or should we assume this run rate into the second half, given what you're seeing on the ground?

A - Ian M. Craig Garcia

All right. Ian[ph] -- do you want take?

A - Gerardo Cruz Celaya

I can -- I can start with that question, Froy. We expect Brazil to continue performing well in line to what we've seen. Colombia, you'll see an effect in the base even though we do expect the average daily sales to continue growing at the same pace that they've been growing during the first half of the year. Last year and during the second half of last year, we already saw Colombia recovering performance trend. So the comps are a little bit tougher in the third quarter and fourth quarter for that operation. But we will continue to see a healthy pace of growth coming from Colombia.

Q - Froylan Mendez

Thank you very much.

Operator

Our next question comes from Renata Cabral with Citi. Ma'am, your microphone is open.

Q - Renata Cabral

Hi, Ian, Gerry, Pam, thanks so much for the space for questions. My first one, follow-up on Mexico. On the first quarter, you mentioned that consumers traded more aggressively than expected into large remote service pack. So my question is if that behavior stabilized during the second quarter and if you're seeing consumers gradually returning to single-serve package or it's still mix, it is still under pressured?

And my second question is a follow-up regarding Brazil. You just said that it's continue expecting a good performance in the second half of the year, but my question is more related to what happened on the second quarter related to if this 5.2% of volume growth is more related to market share gains, how the industry is going in terms of growth? And



if it's possible to have a some idea of how much the World Cup contributed to that would be really great. Thank you so much.

A - Gerardo Cruz Celaya

Thank you, Renata. I'll kick it off. As you well point out, the first quarter, we did see a significant impact coming from mix. That carried on into the second quarter, even a little bit more than what we had budgeted for at the start of the year and we do expect that trend continues for the remainder of the year with significant higher mix of multi-serve presentations, especially one-way.

Having said that, we are being very prudent in terms of measures that we're taking to support single-serve performance. We have seen a bit of an improvement weather coming on in Mexico. That usually helps single-serve presentations. And we're also investing in single-serve dedicated coolers in Mexico, which should also help performance in single-serve as we move ahead.

A - Ian M. Craig Garcia

You asked also, Renata about the industry. So NARTD, and this is Brazil -- NARTD industry in Brazil has been growing, I would say the last three months. It started out the year I think it was growing in January, then it declined in February, March and it renewed April, May, June growth.

This is the industry overall. CSDs moved from I think negative the first trimester to flattish. We're talking volumes. And what's really driving that growth mostly was NCBs, energy, teas, juices, sports drinks, water. That was what's really growing. So that's the industry overall.

So when you see our volumes growing 5.2% we are way -- and we're gaining way above the industry. So a lot is coming from share. But like I mentioned, the industry is positive and - - but not at the level that we're doing and that's why it's translating into share.

Q - Renata Cabral

Thank you so much. Very good color.

A - Ian M. Craig Garcia

Thank you, Renata.

Operator

Our next question comes from Henrique Morello with Morgan Stanley. Your microphone is open.

Q - Henrique Morello

Hi, everyone. Thank you so much for taking my question. So my question is on the margin dynamics in South America. So really strong performance there, even excluding the insurance gain. So if you could just explore a bit more details on the main underlying drivers behind the margin expansion and how we are seeing those drivers progressing throughout the year in the second half and in 2027 as well.

So for instance, if you could comment if Colombia with the big volume increase was an important driver or if it was more related to the hedges of raw materials effects that you are cycling or maybe some SG&A efficiencies or other COGS components that maybe we don't have much visibility.

And also looking at your current hedge positions for the second half for next year, thinking about Brazil and Colombia doing very strongly and Argentina struggling a little bit when balancing those things out, how sustainable or how should we think about those margin expansion rates for the remainder of the year and for 2027 as well? Thank you very much.

A - Gerardo Cruz Celaya

Thank you, Henrique. So for us, I think we're very happy with what we're seeing in terms of margin performance from South America. And we've talked about this for a while, our strategic playbook for improving profitability is aimed specifically at Brazil and Colombia, which are the two main sources of improvement in margins in South America. And what we're most happy about is that we're seeing structural improvement in margin performance in both operations in line with that playbook. So the main source of that improvement is operating leverage as we continue to grow and create efficiencies in both of our operations. It's very well translating into improvement in margins.

So we do expect that trend continues as we move forward. I think in Brazil, we're getting to a moment where it becomes competitive to the rest of our operations. In Colombia, we think we still have a lot of head space of improvement in profitability. That will continue to flow as time progresses.

A - Ian M. Craig Garcia

We worked very hard, Henrique, to do this, like I said under our sustainable growth model. So it's always leveraging our RGM expertise to the fullest to make sure we continue to lead industry growth and improve our relative competitive position. And it's a year-over-year process. You get into this virtual circle, when you improve your relative scale, your size, your efficiencies and you get a more orderly market and that's what's happening there.

Q - Henrique Morello

That's super clear. Thank you very much.

A - Gerardo Cruz Celaya

Thank you, Henrique.

A - Ian M. Craig Garcia

Thank you.

Operator

Our next question comes from Thiago Bortoluci with Goldman Sachs. Please go ahead, sir.

Q - Thiago Bortoluci

Hey, guys. Good morning. Thank you very much for taking my question. I have a follow-up on one of the latest comments from Gerry on his opening remarks regarding capital allocation and the potential usages for the balance sheet, right?

We understand this is still work in progress, no decision was defined. And certainly, this is not a guidance. But when you sit with the Board to discuss what are the best usages for excess cash. Any color on how to think about dividends, ordinary, extraordinary buybacks, the potential comfortable leverage you would be willing to get into? And any to start deploying this potential balance sheet releveraging would be really appreciated. Thank you very much.

A - Gerardo Cruz Celaya

Thank you, Thiago. Yeah, that's where we are. I think regarding -- and I mentioned it in the prepared remarks, regarding returning capital to shareholders, we're very aware of the situation that we're facing. We think we have a clear picture of the alternatives we have. We just have to take care of the timing issue of making the decision and taking it

to the Board. But we are in that process. And as mentioned in the remarks, we will let you know as this process evolves during the year.

Q - Thiago Bortoluci

That's right. Thank you very much.

A - Gerardo Cruz Celaya

Thank you, Thiago.

Operator

Our next question comes from Rodrigo Alcantara with UBS. Sir, your microphone is open.

Q - Rodrigo Alcantara

Hello, good morning, afternoon, guys, Ian, Gerry. Congrats, Pam and Jorge for your appointments. I guess, my question would be for Ian in Brazil, right? As you correctly said, the growth mainly driven by share momentum. It's been a while since we have seen this strong performance when we compare to your largest competitor, right? It's been a while, not just a thing of one quarter or two.

So my question would be here, Ian, on how far is KOF from, let's say, its first share of the Brazilian market, just to understand like the room for momentum to continue? And more importantly, right, I mean your view what's been driving this share gains? Are we talking of price competitiveness, go-to-market execution?

Is it just like consumers liking more the products, the liquids that you -- that you -- that you sell, right? I mean, just trying to understand these massive gains -- share gains that we have seen within the non-alcoholic system there in Brazil?

And my second question would be and perhaps not very fair to ask you this perhaps more a question to the Coke company is in relation to innovation. Your -- we saw recently one of your competitors launching a No-Alc protein beer, right, in Brazil. And so far, aside from the Coke Zero concept, which has been a success, right, we have not seen there's a such a big thing in innovation.

I mean, if you can correct me if I'm wrong here, but from you guys from the Coke system as well. So my question would be here, I mean, what's next for Coke in LATAM for this year? I mean any big launches that you may be planning any new categories that you may be interesting to explore? That would be very helpful, Ian. Thank you very much.

A - Ian M. Craig Garcia

Hi, Rodrigo. So I will talk first about -- you mentioned the headroom or the possible headroom in Brazil and then about innovation in general.

Q - Rodrigo Alcantara

Yes.

A - Ian M. Craig Garcia

So I think in terms of headroom in Brazil, there's plenty is still first from per capita per se for the industry. So there's still a lot of space to continue to grow the industry and expand the industry, and that's what we're doing. When you look by segment, then there's also headroom in terms of share. In the case of Brazil, I would say in CSDs, the main headroom is in flavors. What we've done there is amazing with the Zero portfolio.

So in Brazil, we're gaining 400 basis points of share in flavors. It's wild what's happening in Brazil and this is due to Sprite Zero. So we made sure we were very well-positioned with excellent flavor profiles in the Zeros category for flavors and that's translated into very large share gain in flavors. We never seen that and that's doing well, and we're moving the segment towards where we have better positions.

When you look at NCBs, I think we've made the smart choice of focusing on the profitable NCBs. And I would say energy, there's plenty of headroom. We are around 50% share. So we still have plenty to go there. These it depends on innovation. And there, I agree with you that, we've been a little bit behind the ball and I'll talk about innovation a little bit in a general context. So I'll say, we have that work to be done in teas.

Sports drinks, we're innovating well. We need to lead the industry there on oral enhanced hydration. So that's something that we're lagging. And in waters, it's really been capacity that's -- that we've been missing and we're investing behind that. We have a lot of stocks in water.

So I would say for Brazil, there's still plenty of headroom like I mentioned within those categories. When we talk about innovation in general, the first message that I would like to give is, I think I'm very confident that we've mapped out in every country, let's say, the top three value buckets in terms of innovations that we need to address. And Coke company is working very closely with us on addressing those top three buckets. They vary by country, so, but they're working very hard on that. Are we as fast as we could be? No, but what we've done or what the company is doing is they've reorganized

themselves into three different marketing and development units in LATAM. So one is Mexico, one is Brazil and the rest.

And those are decentralized. So we do expect to see an increase in the pace of delivery of these products. So it's still to be seen because -- but the team is now in place and we should start to see more speed in the pipeline. The way these buckets of value have been identified, it's clear and perfectly in line with both companies.

And I'm pretty confident. So in Mexico, we had volume opportunities in Aguas Frescas, orangeades and oral enhanced hydration. We just started delivering on Aguas Frescas. It went so well that we ran out of concentrate. So now we're going and fixing that. And the other two buckets should be coming in the fourth quarter and first quarter.

So it's not as fast as we would like, but they will be addressed and they will be addressed with fantastic formulas and brands. So I'm confident that when that starts to flowthrough in the fourth and first quarter for Mexico, we should start to see some really good results. For the other countries, the big issues are mostly I would say, still in profitable NCBs, whether it be isotonic, oral enhanced hydration and of course, energy moving to local production.

So everything I believe that is large and relevant has been mapped and should be addressed between the fourth quarter and I would say the first half of next year. So I think the pipeline is pretty robust, Rodrigo. It could be faster, yes. But it's pretty robust and it should start to gather speed as a team is in place and starting to deliver without having to go through internal LATAM or corporate Atlanta protocol.

So they've been empowered and should be going faster. So I'm pretty confident that this should continue with what we're getting ready to launch. Gerry, you wanted to say something?

A - Gerardo Cruz Celaya

I wanted to add on your first part of the question regarding share performance. You asked about the drivers of share performance in Brazil and you mentioned a few factors. I would say all of those factors are contributing to that share performance. Obviously, the quality of our portfolio, maintaining our focus on affordability and being present at in the consumer's consumption occasions. But I would like to stress our execution capabilities, especially when it relates to our digital capabilities. As you remember, we completed our omnichannel digital ecosystem in Brazil as our first market. That from there rolled out to Mexico and this year is finishing in the rest of our operations.

And this is a very important factor because it allows us to much better understand the dynamics at the point of sale and much more effectively execute on those opportunities using our digital capabilities with guided missions and our loyalty program as an incentive mechanism to our customers to help us with execution at the point of sale.

This has resulted in improving combined coverages in our stores. And we already see the benefits of that platform translating into the performance that we're also seeing in share in Mexico. Ian mentioned all our board looks green in share performance in Mexico and we expect to see those tailwinds coming also in the rest of our operations as this year progresses.

Q - Rodrigo Alcantara

Excellent. Excellent. Thank you, Ian, Gerry. And also regards Maria Dyla. Thank you, guys. Congrats on the results.

A - Ian M. Craig Garcia

Thank you.

A - Gerardo Cruz Celaya

Thank you.

Operator

The next question comes from Alejandro Fuchs with Itau. Sir, your microphone is open.

Q - Alejandro Fuchs

Thank you, operator. Hola, Ian, Gerardo, Pamela and team. Thank you for the space for questions. First of all, congratulations to Pamela, Jorge and Lorena on the new responsibilities. I have two quick ones, if I may in Brazil. The first one is after this strong quarter of volumes in the last couple of quarters that we have seen, maybe Ian, I wanted to see if you could elaborate a little bit more how Juntos+ Advisor is helping the team on its execution and driving also part of the strong growth. That'll be the first one.

And then the second one, wanted to touch on your comment on regulatory changes potentially coming to Brazil next year. Wanted to see if that ends up happening, if the strategy would be similar to the implementation in Mexico this year, right, in terms of price that I thought it was very interesting what you explained. Those would be the two ones. Thank you.

A - Ian M. Craig Garcia

Thank you. I'll start at the end and then let Pamela and Lorena and Gerry to complement me on the Advisor figures. So you know it's still early to say how we would address a potential selective tax increase in Brazil. It's too early. We don't know whether that tax will be at a level that keeps us whole versus the taxes that we have this year. So remember, the amount of federal taxes in Brazil are being reduced and consolidated. So if that tax is set at a certain threshold, then it would be a wash and there wouldn't be a tax increase. If they set it up at a higher threshold, then there would be a tax increase and we would have to really analyze, Alejandro, what is the magnitude of that potential increase.

So in Mexico, the magnitude was very, very large. So it didn't really make sense for us, like I said, based on prior learnings to pass all of that together with inflation in one shot, it would have been just too much. So it depends on that magnitude. So I can tell you this, if it would be a very large magnitude, then probably we might do something like the Mexico one. If it was a wash or there wasn't -- it wasn't a large increase, then I think you could be a lot more comfortable in passing all of it through together with the tax.

So it's still a little bit early, Ale to determine that because we have no visibility whatsoever yet on what it's going to be, okay? And at the same time, there is the potential in Brazil to change the labor journey. So from six by one days to five by two and that also has an impact on costs and employment. And that's also something that I believe a lot of people are starting to realize, how inflationary it's going to be and how disruptive it could be given that Brazil is at absolute full employment and very tight labor markets. So you also have that to deal with whether it does or does not go through. More and more, I'm hearing that it might not go through because it's disruptive.

So, my main comment is, there are too many variables either on the cost side with this labor -- potential labor journey adjustment or on the magnitude or not of the tax increase to really give you a description of what we plan to do yet, Ale. Gerry?

A - Gerardo Cruz Celaya

Regarding –

A - Ian M. Craig Garcia

Maybe you can go through the figures on Advisor, please.

A - Gerardo Cruz Celaya

Yeah. Regarding Advisor, Alejandro, a few data points that I think are helpful. We have Advisor rolled out in our Brazil and Mexico operation. We started out at Brazil and we



see consistent performance numbers in both operations, in both positive numbers coming from the use and the implementation of Advisor.

We see improvement in geo efficiency and the visitation of our customers. We see and this is a very important part of the results that we're seeing in share in both operations, we see improvements in combined coverages, both for CSDs and stills. Larger in Brazil that were coming from a more headroom and improvement in both CSDs as in stills.

In Mexico, even though we do have high combined coverages already, we still see improvements of about 3 percentage points in combined coverages for our whole portfolio. We see improvements and the quality of guided missions that we're executing at the point of sale, both from our pre-sellers when they visit the store as well as from our customers that we recruit as part of our execution team using our loyalty program.

A 100% of our pre-sellers are using Advisor as their -- as their sales tool when they visit the store, which achieves the omnichannel experience, commercial experience and tactics for each of our customers, which is very, very personalized by customer looking to maximize value generated for the customer as well as for the company.

So those are a few of the data points that we're following. We're expecting to launch Advisor and the rest of our operations through this year. We're working on this. So by next year, we will be able to share performance improvements in the rest of Coca-Cola FEMSA with Advisor rolled out.

Q - Alejandro Fuchs

That was super clear. Thank you very much, Ian and Gerardo.

A - Ian M. Craig Garcia

Thank you.

A - Gerardo Cruz Celaya

Thanks.

Operator

Our next question comes from Carlos Laboy with HSBC. Your microphone is open.

A - Ian M. Craig Garcia

Carlos?

Q - Carlos Laboy



There we go. Sorry about that.

A - Ian M. Craig Garcia

There you go.

Q - Carlos Laboy

There we are. In addition to Zero, have you reformulated brand Coca-Cola this year for lower caloric content in Mexico? And if so, can you share with us maybe some of the benefit that this is having in terms of lower sugar costs for your gross margins? And then second, to what do you attribute the growth in one-way mix, while the consumer remains really banged up here in Mexico? Is the refillable proposition price gap, working well enough or is there something else at play here that is not giving you the refillable lift at a time like this?

A - Ian M. Craig Garcia

Hi. Hi, Carlos. So the first point of your question, we haven't reformulated to reduce caloric content in the original soft -- flavor formulas of Coke or flavors in Mexico. So we haven't done that. So there's nothing there of uplift in by reducing, the full calorie sweeteners or to increase artificial sweeteners mix. That is not something that we're doing there.

In terms of why I would say, why multi-serve one-way is performing better than refillables. There is -- it's not that refillables are performing poorly. It has to be done looked at through -- more through the lens of the price points. So we're analyzing -- so we are doing well with refillables, just single-serve -- sorry, not single-serve. One-way multi-service is performing better. And what we're analyzing is we moved away in the refillables from the -- from a price point that we need to get to the formula, where it gets its exactly parity price of where our main competitor is. And for that, we would need a 2-liter PET.

But it's a relevant investment and what we're looking at there is first a pilot to see if it makes sense before we go down that route. So we're off of the price point where we need to be and we would need to have a 2-liter PET. So if that works, Mexico would be the only market where we would have three different multi-serve returnable presentation. So all markets have one glass and one PET multi-serve returnable. That no longer gets us to the price point where we need to be in Mexico, Carlos. So we will need to have a third one, a third PET one. So before we go down that route, the pilots need to show us what the metrics are accretive.



Q - Carlos Laboy

Well, that's very helpful. Thank you so much, Ian.

A - Ian M. Craig Garcia

Thank you, Carlos.

Operator

The next question comes from Emiliano Hernandez with GBM. Your microphone is open.

Q - Emiliano Hernandez

Hi, Ian, Gerry, and Pamela. Congrats on the results and thanks for the space for questions. Maybe just a quick follow up in Mexico. Could you comment on the regional performance? How did the Southeast perform relative to the Central region? Are you seeing meaningful difference in consumer demand across these geographies just putting aside the World Cup boost, which fair to assume had more benefits in the Central region? Thank you very much.

A - Gerardo Cruz Celaya

So we saw -- thank you, Emiliano, for the question. We saw uniform performance across all our regions. We had seen Southeast underperforming in the first quarter. So we're happy to see Southeast Mexico now performing significantly better. But I would say performance during the quarter was uniformly positive across all of our operations. The World Cup, as Ian mentioned in prepared remarks, I think was a very successful event in terms of the way that the consumer and market in general interacts with the brand, especially the Coke brand as well as Powerade, which were the brands that were flagship for the World Cup. So that was a very positive development.

But we're happy to see the regional performance across our territories being uniformly strong.

Q - Emiliano Hernandez

Thanks. That's great. Appreciate the time.

A - Ian M. Craig Garcia

Thank you.

A - Gerardo Cruz Celaya

Thank you.

Operator

The next question comes from Antonio Hernandez with Actinver. Your mic is open.

Q - Antonio Hernandez

Hi, good morning. Congrats on your results. Just a quick one regarding raw materials. You already mentioned your hedging strategy and how far you are in terms of hedges for this year and next year. But wanted to get a sense if these raw materials are maybe if you're facing higher prices or how do you see overall raw materials for the next year, even with hedges? Thanks.

A - Gerardo Cruz Celaya

So for this year as compared to last year, we up to now have seen this benefiting our performance. As you well mentioned, and I mentioned in the prepared remarks, we have a significant portion of our exposure hedged for this year. So that certainly has helped. I would say the spot prices for raw materials are very volatile and very dependent on developments in Middle East. We do see that volatility, especially on energy-related raw materials. But given that we have this a hedging process in place that allows us to have or reduce volatility significantly on our results, we continue benefiting from that reduction in volatility. And it's especially helpful in years like this one where that you see pressure to the upside in prices. But it works well in any scenario because it allows us to provide more certainty to our operators for them to focus on market decisions and pricing decisions related to market dynamics rather than volatility coming from outside factors.

So that's a little bit of where we are in terms of our of our hedging strategy and raw material environment, expecting to see or to continue seeing that volatility as the year progresses, but we're okay with our hedging positions that allow us to reduce that volatility.

Q - Antonio Hernandez

Okay. And these hedges for next year, are they -- how do they compare versus this year's hedges?

A - Gerardo Cruz Celaya

Yeah, for next year, we already started positioning our hedges also with a very attractive positioning, especially on sweeteners, both HFCS as well as sugar. On packaging, we're

also -- we also already have a pretty high position and hedging for '27 in aluminum. What we still have or are lagging a little bit behind is on PET hedges for next year. We're looking for alternatives to start hedging for next year. And you may imagine that with volatility and uncertainty coming from the Middle East, suppliers are waiting a little bit to see how this evolves, so that we can start positioning our hedges for next year. So that's, I think the packaging exposure that we have for 2027.

Q - Antonio Hernandez

Okay. Perfect. Thanks a lot. Have a nice day.

A - Gerardo Cruz Celaya

Thank you.

Operator

Next question comes from Felipe Ucros with Scotiabank. Your microphone is open.

Q - Felipe Ucros

Great. Thanks, operator, and good morning, Ian, Gerry and team. Thanks for the space and congrats to Pam. I think most of my strategic questions were asked, but I have a quick one on the possibility of stronger than usual El Nino. It looks like you're pretty much covered on the hedging of raw materials that could move because of El Nino. So I think the risks are probably down to the top line at this point, whether you have a lot of precipitation or cold conditions versus whether dry or hot.

Just wondering how you see that mix across your regions. Is this a phenomenon that makes things better. I know, for example, in Colombia where I grew up, it does get drier and hotter. But just wondering how that mix comes out across the entire region that you cover. Thank you.

A - Ian M. Craig Garcia

Hi, Felipe. So obviously, it's very dangerous to going to try to forecast this -- these type of events. So like you said, what we can mention is what's happened in the past. So what's happened in the past for KOF, it's been positive, except for Southern Brazil, and Argentina, Uruguay. So overall, it's very positive, let's say, from Parana up north, it's -- in Brazil is positive and it tends to be more precipitation from Southern Brazil, Uruguay and Argentina.

So that's like the overall mix effect for KOF. It's still -- it's always a challenge to forecast the weather. But like you said, that's what we've seen in Colombia, Venezuela, Central America in most of our territories in Mexico, but -- and it's more rainy for South Brazil, Argentina and Uruguay.

A - Gerardo Cruz Celaya

Up to now Felipe -- up to now, Felipe, we haven't seen significant disruptions in weather patterns. So even though we do expect that the phenomenon materializes as the year progresses, up to now, I think it's been fairly in line with typical weather patterns across the board.

Q - Felipe Ucros

Very, very, very helpful comments. Thanks a lot, guys.

A - Ian M. Craig Garcia

Thanks.

A - Gerardo Cruz Celaya

Thank you.

Operator

The next question comes from Ricardo Alves with Morgan Stanley. Your microphone is open.

Q - Ricardo Alves

Hey, Ian, Gerry. Nice chatting with you. Thanks for the follow-up. We thought that this quarter was remarkable and it made us think about the last few years when -- I guess that this question is more to Ian, but when you assess the strategy you've implemented over the past three years or so, I think that there are multiple clear success, right? The penetration of Juntos+ was quite impressive. The expansion of no sugar that we discussed today, No Sugar beverages, the share gains in Mexico. I would be curious, however, on the areas that are still concerning you. What are you thinking about, when you're looking at the next couple of years, if we're assessing again the strategy? Because I think that this was a long conference call, when we talked about many, many different things, right? Shorter term issues like the soft Mexican consumer and how you are tackling the affordability in Mexico, discussions of how challenging or not Brazil could be next year with the changes. You talked about innovation. So that there is still a

lot. It seems that there is a lot to be working with and be excited about, but what would be I guess, the top priorities? What is on the top of your mind for the next couple of years? Thanks again and congrats, guys.

A - Ian M. Craig Garcia

Thank you, Ricardo. I believe that you asked in terms of risks, and I think we covered those. So in terms of risks really, we would be continuing below potential growth in Mexico would be something that would be a concern for us. There's plenty of potential in Mexico and finding a way to unlock that and translating into consumption. And specifically, the main concern, although I think there could be a silver lining and a positive outcome here would be the potential for the Brazil tax and the labor reform. So I would see those would be the major risk out there.

Everything else, we happen to be in a vibrant industry in a part of the world where we have positive demographics and disposable income trends over the next 10 to 15 years. So there's a lot of tailwinds to us. And I think we've gotten into a very positive flywheel in every country, where we're expanding relative scale, which gives us a more rational industry and we can focus on growing the pie.

I think, I don't remember who made the question on the innovation piece. We could do a little bit -- a little better there. But I'm also pretty confident on how that thing goes. So I wouldn't say that anything is taking over my sleep except like I said, whether we continue with a slower than potential growth in Mexico, although we would be outperforming there, and if in Brazil things get to an adjustment year in '27, because of a tax and potential labor journey. But that's basically it. I -- we're very fortunate to be in the industry we are in. We have a great partner, great formulas, great brands. I wouldn't substitute my portfolio for anyone else's.

And with the introductions that we -- that we should be doing and the digital enablers, Ricardo, I think it's just giving us an edge and making it -- I wouldn't say easy, but making it every day a little bit more targeted approach with our sales team. So we're pretty confident on how things are moving with those two risks that I highlighted.

Q - Ricardo Alves

Perfect. That was very clear, Ian. Thank you so much.

A - Ian M. Craig Garcia

Thank you, Ricardo.

Operator



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

A - Pamela Ortiz

Thank you all for your interest in Coca-Cola FEMSA and for joining us on today's call. As always, the IR team, we are available to answer any of your remaining questions. Thank you. Have a great week.

Operator

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