

Coca-Cola Femsa

## FY 2025 Earnings Call



### Company Participants

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

### Other Participants

- Alvaro Garcia, Analyst, BTG Pactual
- Antonio Hernandez, Analyst, Actinver
- Benjamin Theurer, Analyst, Barclays
- Fernando Olvera, Analyst, Bank of America
- Froylan Mendez, Analyst, J.P. Morgan
- Gabriela Martinez Mosqueda, Analyst, Banorte
- Renata Cabral, Analyst, Citi
- Ricardo Alves, Analyst, Morgan Stanley
- Rodrigo Alcantara, Analyst, UBS
- Thiago Bortoluci, Analyst, Goldman Sachs

### Presentation

#### Operator

My name is Sophia, 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. You will have the opportunity to ask questions at the end of the presentation. To do so, please use the Raise Hand feature in Zoom, and we will open your line. If you experience any technical issues during the call, please use the chat function to request assistance.

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

Jorge Collazo

Thank you, Sophia. Good morning, and welcome to this conference call to review our fourth quarter and full year 2025 results.

Before we begin, let me remind all participants that today's 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. 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.

Joining me this morning are Ian Craig, our Chief Executive Officer; Gerardo Cruz, our Chief Financial Officer; and the rest of the Investor Relations team. After prepared remarks, we will open the call for Q&A. As Sophia just mentioned, to do so, please signal for questions using the Raise Hand feature in your Zoom toolbar.

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

Ian M. Craig Garcia

Thank you, Jorge. Good morning, everyone. We appreciate you joining us for today's call.

2025 tested our business in multiple ways, which provided the opportunity to learn and adjust to changing conditions. It also underscored the resilience of our core business and reinforced our conviction in our strategy of following a sustainable long-term growth model. Throughout the year, we implemented decisive measures to react to the short term, while ensuring we continue progressing towards our long-term objectives. Among other options, in Mexico, we adjusted our promotional grid and strengthened our affordability initiatives to address a weaker-than-expected consumer and the effects of temporary unfavorable brand sentiment early in the year. We focused on recovering our competitive position and protecting profitability with swift and decisive actions that became a best practice within the global Coca-Cola system.

On the other hand, our markets in South America enjoyed more favorable consumer dynamics that, coupled with market execution, investments behind capacity, and the full reopening of our plant in Porto Alegre, resulted in volume growth across most of our territories and an improved competitive position. Notably, gradual sequential improvements during the last quarter of the year led to consolidated volume growth year-on-year. Indeed, volume performance in December marked the strongest month in our company's history.

Despite the many headwinds faced, our full year 2025 results demonstrate top and bottom line growth, with resilient operating and adjusted EBITDA margins. We were also successful in reinforcing our relative scale across our markets, supported by progress in installed capacity and the rollout of our digital initiatives.

As we look to 2026, we are confident that you will deliver both opportunities and challenges, including the impact on our consumers and customers of the excise tax

increase in Mexico. This makes it more important than ever that we adhere to our sustainable growth model to best navigate these challenges and emerge with a stronger relative competitive position. We expect to follow the same strategic playbook, leveraging Coca-Cola FEMSA's differentiated strength of an unmatched portfolio of brands, the largest distribution footprint, consistency in investment above the line and below the line, relentless execution, and leading-edge digital enablers.

For the year, our key priorities remain unchanged. First, to continue growing our core business by leveraging our big bets, accelerating Coke Zero, improving our competitive position in flavors, and developing profitable non-carbonated beverages. Second, to capitalize on Juntos+ AI capabilities and continue to roll out and leverage Juntos+ Advisor across our four largest markets. And third, to continue fostering a customer-centric and psychologically safe culture for Coca-Cola FEMSA.

With that, let's review in detail our consolidated results for the fourth quarter. Our consolidated volume increased 1.3% in the quarter to reach 1.09 billion unit cases. Gradual sequential improvements in Mexico, coupled with solid volume growth in the rest of our territories, supported this positive performance. Total revenues for the quarter grew 2.9% to MXN77.7 billion, led by revenue management initiatives that were partially offset by unfavorable mix effects and headwinds related to currency translation from most of our operating currencies into Mexican pesos. On a currency-neutral basis, our total revenues increased 6%.

Gross profit increased 1.8% to MXN36.3 billion, leading to a margin contraction of 60 basis points to 46.7%. This margin performance was driven mainly by an unfavorable mix and hedging positions, coupled with fixed costs such as labor and depreciation. On the other hand, these effects were partially offset by better sweetener and PET costs.

Our operating income increased 13.3% to reach MXN13.7 billion, with operating margin expanding 160 basis points to 17.6%. This increase is positively impacted by the recognition of insurance claims recovered in Brazil and Mexico, net of expenses for pesos, MXN1.1 billion. By excluding insurance recovery and related expenses in both the fourth quarter of 2024 and 2025, our operating income would have declined by 2.1%, resulting in an operating income margin contraction of 90 basis points to reach 16.1%. This normalized operating margin contraction is explained by higher depreciation and labor expenses that were partially offset by expense controls such as maintenance and freight, coupled with an operating foreign exchange gain.

Adjusted EBITDA for the quarter, including insurance recoveries, increased 12.8% to MXN18.2 billion, and EBITDA margin expanded 210 basis points to 23.4%. Excluding insurance effects and related expenses at the EBITDA level, normalized adjusted EBITDA grew 4.4%, with a margin expansion of 30 basis points to 21.9%.

Finally, our majority net income increased 3% to reach MXN7.5 billion. This increase was driven by operating income growth that was partially offset by an increase in comprehensive financial results and in the effective tax rate.

Now, let me expand on the main operational and strategic highlights across key markets. In Mexico, despite facing what is still a soft consumer environment, our volumes improved sequentially, resulting in a 0.9% contraction year-on-year, aided by

adjustments to our price pack architecture, coupled with revamped affordability initiatives in multi-serve refillable packs.

Regarding categories, Coke Zero maintained its solid growth pace with 14% volume growth year-on-year. Our initiatives to recover share allowed us to fully recover our competitive position and enter 2026 with positive share momentum in both the colas and sparkling flavor segments. Notably, our stills portfolio grew 7.4% year-on-year, driven mainly by the solid performance achieved in Monster, Fuze Tea, and Santa Clara, which grew 41%, 33% and 28%, respectively. We also positioned our Mexico operation for significant market execution improvements in 2026, with more than 100,000 new cooler doors installed by year-end 2026.

Regarding digital, as I mentioned last October, we began the rollout of our state-of-the-art salesforce tool, Juntos+ Advisor, in Mexico. We are encouraged to share that with a strong focus on usability, we have completed its rollout, and today, its overall performance is improving geo efficiency or visitation[ph], as it's also known, by 5.5 percentage points, from 91% to 96.5% and offering value-added functionalities to our salesforce that are helping them strengthen consumer relationship -- customer relationships and increase sales.

I also want to underscore the swift and decisive nature of our Mexico team's reaction to a difficult first half of the year by implementing top line productivity and cost control measures that reversed a negative trend in volume and profitability.

As we enter 2026, we are well positioned to navigate the challenges related to the excise tax increase and continued soft economic growth. We have bolstered our portfolio with key affordability initiatives and are in the process of increasing our returnable pack offerings to capture key price points and defend household penetration. We have also developed an ambitious plan together with The Coca-Cola Company to capitalize on being a host country for the FIFA World Cup. Additionally, we continue with a keen focus on productivity and cost control initiatives, together with a prudent CapEx investment level, to navigate the short term while we gain visibility on how the year develops.

Moving on to Guatemala, where our volumes increased 3.5% to reach 48.9 million unit cases. During the quarter, we continued seeing a macro environment that decelerated versus the previous years, driven by shifts in consumer behaviors as consumers increased their savings from remittances from 11% up to 40% on average, coupled with reductions in mobility because of rising insecurity in the country, which is now the number one public concern in Guatemala. Amid this backdrop, we were able to continue growing volumes and share, although at a lower than anticipated pace. In addition, during the second half of the year, we implemented productivity initiatives to put in place a linear operating model.

As we enter a new year, we aim to accelerate top line growth with initiatives to continue our colas momentum while capturing share opportunities in flavors. In colas, we continue to have opportunities to gain share through entry price points, leveraging the FIFA World Cup and increasing availability, while we double down on efforts to boost Sprite. We continue to have ample space to develop profitable stills categories with

Powerade and Monster, as well as continuing to bolster our Juntos+ platform by unlocking new clients and improving executions.

With the ambition -- ambitious investments that we have completed in Guatemala, capacity constraints are no longer a concern. Our priority now is to continue optimizing our cost structure through disciplined expense management and operational excellence.

Now, moving on to our South America division. In Brazil, our quarterly volumes increased 2.6%, driven mainly by a historic month of December. Outstanding market execution on the back of our digital enablers, coupled with higher average temperatures and significantly lower precipitation, drove this growth. Notably, this is the highest fourth quarter volume on record for our second-largest operation.

As has been the case throughout the year, we continued gaining share in all relevant categories within the non-alcoholic, ready-to-drink industry. Importantly, we have recovered the vast majority of the share that was lost in Rio Grande do Sul due to a temporary closure of our plant, which fully reopened last May.

Aligned with our strategic intent to accelerate growth in non-caloric and single-serve beverages, we delivered strong growth with Coca-Cola Zero, which grew 44% during 2025, and Sprite Zero, which achieved accelerated growth of 93% year-on-year in 2025. Notably, our Sprite Zero playbook is following a similar script as Coke Zero. As a result, Sprite Zero now represents more than 20% of our total Sprite volume.

Regarding stills, we have leveraged our portfolio and commercial capabilities to achieve growth across all categories. For instance, energy drinks continue seeing double-digit growth from Monster, driven by portfolio innovation, execution, and availability. In line with these positive performances, juices grew 9% and Powerade grew mid-single-digits.

Finally, within the alcoholic ready-to-drink category, we achieved more than 50% growth year-on-year, driven by Jack & Coke and Absolut Sprite.

Our digital enablers, Juntos+ monthly active user base continues expanding, surpassing our goal of 303,000 monthly active users, while continuing to increase average ticket size. Importantly, our Juntos+ Premia loyalty customer base increased 73% year-on-year. Juntos+ Advisor, which is a game changer for our sales force and is supporting Brazil's positive share performance, increased its geo efficiency by more than 9.2 percentage points to reach 95.6%.

Finally, on the supply chain front, we increased our manufacturing capacity by 8.2% year-on-year, supported by five new production lines. In addition, our warehouse capacity increased by more than 25,000 pallet positions, representing a 6% increase year-on-year. This was achieved through state-of-the-art projects such as a vertical automated warehouse located next to our Itabirito plant in the state of Minas Gerais.

As we look to 2026, we're encouraged by the growth rate at which we closed the year. We anticipate that election-related spending, social programs, and the FIFA World Cup will represent important tailwinds for our operation in Brazil. In this environment, we expect to continue executing against our strategic priorities, striving to outperform the industry, leveraging our digital initiatives, and our customer-centric culture.

Now, moving on to Colombia. Our volumes grew 4.5% as the macroeconomic environment gradually recovers, and we cycle the effects of the excise tax increase in the country. As was the case in Mexico, we implemented portfolio initiatives to adjust our price pack architecture in brand Coca-Cola, providing attractive price points aimed at growing transactions. In addition, we're managing price gaps in multi-serve presentations to provide affordability and an attractive value proposition.

At the same time, Coke Zero, which achieved double-digit growth during the quarter, remains a growth engine with ample headroom. As I mentioned during our last earnings call, Quatro, our grapefruit flavor, is now the number one flavored sparkling beverage in the country, and we aim to continue expanding our competitive position in flavors with increased innovation and availability.

On the digital front, Colombia closed the year with more than 320,000 monthly active buyers. Importantly, average ticket grew more than 4% and digital orders increased more than 15% year-on-year. We anticipate that our premium loyalty plan will continue driving adoption and frequency as its use expands during 2026.

Finally, I want to recognize our team in Colombia for their cost control measures and the cost-to-serve reductions they have achieved, aided by our capacity investments in the country, which have enabled us to reduce primary freight costs and third-party warehouse expenses. As we look to 2026, we expect to add another distribution center in Medellin, which will alleviate warehouse saturation and bring additional efficiencies.

In Argentina, our volumes increased 3%. Our agile response to a volatile environment ensured our sustained positive performance throughout the year. Despite a heterogeneous recovery across different sectors of the economy, we have remained consistent with our strategy, enhancing our affordability plans and accelerating our single-serve mix, all while maintaining a lean and flexible cost structure. This strategy resulted in an improved competitive position and single-serve mix that reached 26.3%, a 2.3 percentage point increase year-on-year. Regarding our digital initiatives, we continued driving digital client adoption with the rollout of the latest version of Juntos+, resulting in a 71% increase in digital orders year-on-year.

As we look to 2026 for Argentina, we expect to continue executing against the strategy that has been successful thus far: sustain an affordable value proposition in brand Coca-Cola and flavors; boost single-serve and Powerade by leveraging the FIFA World Cup; and unlock Juntos+ and Premia Juntos+ full potential, while keeping a lean and flexible cost and expense structure.

Let me close by emphasizing that we are encouraged to be a part of a vibrant beverage industry within a region with positive growth prospects. The support of our long-term sustainable growth model from our strategic shareholders, FEMSA and The Coca-Cola Company, is one of our fundamental strengths.

With that in mind, I would like to take a moment to recognize and thank Jose Antonio Fernandez Carbajal and James Quincey for their exceptional vision, leadership and partnership as CEOs of FEMSA and The Coca-Cola Company, respectively. Their vision to grow the Coca-Cola system, combining the unique strengths of both The Coca-Cola Company and the bottlers, has been fundamental to our company's success.

Additionally, both Jose Antonio and James have personally taken a stake in the system's talent development, leaving a legacy of a deep management bench. We're grateful for the transformational impact they have had over the years, and wish them both continued success in their roles as chairman.

We're equally excited to welcome Jose Antonio Fernandez Garza-Laguera to the role of CEO at FEMSA, and Henrique Braun to the role of CEO at The Coca-Cola Company. Their leadership marks the beginning of a new growth chapter in our strategic partnership, and we look forward to continuing to transform the beverage industry and create long-term value together.

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

Gerardo Cruz Celaya

Thank you, Ian, and good morning, everyone. I appreciate you joining us today.

I will begin by summarizing our division's results for the quarter. In Mexico and Central America, our volumes were even, as a slight volume decline in Mexico was offset by growth in Guatemala, Nicaragua, Panama, and Costa Rica. Revenues increased 1.6% to MXN42.2 billion, driven mainly by revenue growth management initiatives that were partially offset by unfavorable mix and currency translation effects into Mexican pesos. On a currency neutral basis, revenues increased 3.3%.

Gross profit increased 2.6% to reach MXN20.8 billion, resulting in a gross margin of 49.2%, a 40 basis point expansion year-on-year. This margin increase was driven mainly by lower raw material costs such as sugar and PET, coupled with the appreciation of the Mexican peso as applied to our US dollar-denominated raw material costs. These effects were partially offset by unfavorable mix effects and fixed costs.

Operating income in the division declined 1.1% to MXN6.9 billion, and our operating margin contracted 40 basis points to 16.3%. As described in our earnings release, our operating income includes the recognition of insurance recoveries in Mexico, net of expenses, or MXN116 million. By excluding this effect and related expenses in the same period of the previous year, normalized operating income would have declined 8.1%, resulting in an operating margin contraction of 170 basis points. This contraction was driven mainly by an increase in marketing, depreciation and labor, coupled with a lower operative foreign exchange gain as compared to the previous year. These effects were partially offset by operating expense efficiencies, such as maintenance and distribution.

Finally, our adjusted EBITDA in the division increased 1.3%, with a flat margin as compared to the previous year, to reach 22.9%. Importantly, by normalizing insurance claims and related expenses at the EBITDA level, normalized Adjusted EBITDA increased 0.5% year-on-year, an EBITDA margin contraction of 20 basis points.

Moving on to South America. Volumes increased 3% to 504.1 million unit cases. This increase was driven by volume growth across all territories in the division. Revenues in South America increased 4.6% to MXN35.4 billion, driven mainly by our revenue management initiatives, offsetting 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 9.5%.

Gross profit in the division increased 0.6%, and gross margin contracted by 170 basis points to 43.7%, driven mainly by an unfavorable mix and higher fixed costs such as labor and depreciation. On a currency neutral basis, gross profit increased 5%.

Operating income in South America rose 32.8% to MXN6.8 billion, with operating margin up 410 basis points to 19.2%. As I've previously mentioned, this margin expansion was positively impacted by insurance recovery in Brazil for approximately MXN1 billion. By normalizing insurance effects and related expenses in 2024 and 2025, our operating income increased 6%, resulting in an operating margin expansion of 20 basis points to reach 16.3%. This improvement was driven by expense efficiencies such as freight, marketing, and maintenance.

Finally, adjusted EBITDA in the division increased 29.5% to MXN8.5 billion for a margin expansion of 460 basis points to 23.9%. Excluding the effects of insurance recoveries and related expenses in 2024 and 2025, at the EBITDA level, normalized adjusted EBITDA increased 9.6% year-on-year and EBITDA margin expansion of 90 basis points.

Now let me expand on our comprehensive financing results, which recorded an expense of MXN1.4 billion as compared to an expense of MXN980 million during the same period of the previous year. This increase was driven mainly by a reduction in interest income, resulting from a lower cash position in key markets and lower interest rates in Mexico, coupled with higher interest expenses driven by the issuance of a US dollar-denominated bond to 2035 and its related derivative instruments. These effects were partially offset by: first, a gain in financial instruments of MXN162 million as compared to a loss of MXN33 million in the fourth quarter of 2024; second, a higher foreign exchange gain; and third, a higher gain in monetary positions from inflationary subsidiaries.

I would like to briefly comment on our recent financing activity that further reinforces our balance sheet with attractive funding conditions. On February 12, we successfully priced the bond issuance in the Mexican market for a total amount of MXN10 billion. The transaction was executed through a dual tranche structure, allowing us to balance duration and interest rate exposure. The first tranche consisted of MXN7 billion, with a 10-year maturity, priced at a fixed rate of 9.12%, equivalent to Mbono plus 43 basis points. A second tranche amounted to MXN3 billion with a three-year term, priced at a floating rate of Funding TIIE plus 38 basis points. This structure reflects both strong investor demand and our disciplined approach to liability management. Importantly, the transaction received the highest national credit ratings from S&P and Moody's, reaffirming our solid credit profile and the confidence that the local capital markets continue to place in Coca-Cola FEMSA. Overall, this issuance strengthens our financial position, extends our debt maturity profile, and provides us with continued financial flexibility.

Finally, I'd like to take a moment to comment on sustainability, which remains a core element of our long-term value creation strategy. Our disciplined and consistent

execution translated into tangible improvements across the main sustainability benchmarks used to assess our performance. Most notably, our S&P Global Corporate Sustainability Assessment score increased by 11 points year-over-year, reaching an all-time high of 81. As a result, we were included in the 2026 Sustainability Yearbook as the highest-scoring company in our sector in the Americas, an achievement that underscores the strength of our sustainability strategy and governance practices. In addition, we achieved a record score of 4.1 out of 5 in the FTSE4Good assessment, while also posting improvements across our key evaluations, including MSCI, ISS, ESG, Bloomberg ESG, and CDP. These results reflect particularly strong performance across climate action, water stewardship, and supplier management. Taken together, these recognitions reinforce our conviction that the disciplined integration of environmental and social factors, along with robust risk management across our operations and value chain, is a critical enabler of sustainable long-term growth.

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

## Questions And Answers

Operator

Thank you. At this time, we are going to open it up for questions and answers. If you have a question, please click on Raise Hand for audio questions, or write it down in the Q&A section for written questions. Please remember that your company's name should be visible for your question to be taken. We do ask that when you pose your question, that you pick up your headset to provide optimum sound quality. Please hold while we poll for questions.

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

Q - Benjamin Theurer

Yeah. Good morning, Ian, Gerardo, Jorge. Thank you very much for taking my question. Wanted to get some incremental color if you can as to the performance, particularly in Mexico, over the course of the fourth quarter and then heading into the first quarter. What have you seen in regards to the volume behavior October through December? And then particularly now with taxes being in place early on, what are like the early signs of sensitivities that you've been seeing amongst key customers, and how have you been reacted on that as it relates to the tax? And then ultimately your pricing strategy throughout the year? That would be my question. Thank you very much.

A - Ian M. Craig Garcia

Hi, Ben. So what you saw during the -- during last year, if you remember, I think in Mexico, in the first quarter was around a 5% decline. Then the second quarter, when we really had the impact of the consumer sentiment, around the 15% decline. No, sorry, around 10%, if I remember, more or less. And then third quarter, 3.7%. And finally, by the fourth quarter, it was almost flat, declining 0.9%. So you saw sequential improvement. And I mentioned in the prepared remarks that December was the

strongest December on record for Mexico in terms of volume growth. So you can see how the underlying trend was improving to the point of having December that was the highest on record in terms of volume.

That being said, we continue with the same guidance for 2026, which is a low- to mid-single-digit decline in Mexico, simply because we had to transfer the impacts of the IEPS excise tax, and that was a large price increase that we had to transfer through for the IEPS tax. So we're not changing our guidance there, and we are seeing the impacts of that tax increase in the first quarter.

Q - Benjamin Theurer

Are they as expected? Like the volume...

A - Ian M. Craig Garcia

Yes.

Q - Benjamin Theurer

-- declines or the very much...

A - Ian M. Craig Garcia

As expected.

Q - Benjamin Theurer

-- basically in line? Okay, perfect. I'll pass it on. Thank you very much. I'll pass it on. Thanks.

Operator

Our next question comes from Ricardo Alves with Morgan Stanley. You can open your microphone.

Q - Ricardo Alves

Hello, Ian, Gerry, Jorge. Thanks for the opportunity. Ian, I remember the cycle of investments in 2024, the focus on growth, and then you have 2025 with all the challenges and one-offs. IEPS came through. And I think that to credit Coke FEMSA, the company was very fast in adjusting the cost structure as needed, the price hikes. So when you think about -- the question is your strategic views into 2026. When you think about everything that you have in place, right? I think that since 2024, all the investments or the major investments at least were made, even rebuilding plans. The costs were adjusted in Mexico, a big discussion that we had in the first half of last year. You priced through the tax issues or IEPS issues into 2026. So with assuming that all of that is kind of behind you, what would be for this year and the next two years, your main strategic ambitions for 2026? Not necessarily Mexico only, but across the board. What is keeping you awake as big opportunities ahead?

And then, just one other question for Gerry. Just a quick update on the shareholder remuneration would be much appreciated, given the below 1 times EBITDA leverage. So I think that an update on shareholder distribution would be appreciated. Thank you so much, guys

A - Ian M. Craig Garcia

Thank you, Ricardo. Well, just to be clear, as you mentioned, the -- we're very proud of the adjustment that our Mexico team, or the reaction, let's say, the rapid reaction that our Mexico team had, when we were facing the changing consumer sentiment and the sluggish demand that coupled together with weather, by the way. So it was a quick and swift reaction, and that's behind us. Going into 2026, we are already with a lean structure. And we adjusted our CapEx, primarily in Mexico, because the rest of the territories are growing as expected, so we adjusted our CapEx there.

And our key priorities remain the same. I mean, we want to continue growing our core business. It's amazing what's happening with Coke Zero, even within this environment in Mexico. Even with the tax, we're continuing to accelerate Coke Zero. There are opportunities to improve our position in flavors. What I'm seeing with Sprite Zero in Brazil is nothing short of amazing. What we have done with Quatro in Colombia is very positive. And that's something that we want -- what we're doing with the heritage brands in Mexico. So that's something that we want to continue to leverage this year. And also on profitable NCBs, which continue to gain mix and grow at very attractive rates. So that would be my first priority.

The second one is we will have Juntos+ Advisor in our four largest markets this year. We already have it in Mexico and Brazil, where it's maturing, where it's giving us improved visitation, improved combined coverages. I mean, those things are growing 3 to 2 percentage points, and those translate directly to increases in share. You see that in Brazil. More compliance on the guided missions. So I think, we expect to continue to scale that and leverage those enablers.

And finally, we continue working on the culture piece. It's very important for us that we continue improving on our customer centricity journey, improving our customer-centric measures. We believe that's key to the fundamental long-term health of the business, and that's what we're driving, Ricardo. We've talked about this in our conversations. This is a scale business. It's important that we continue growing relative scale. It's a year that we need to be prudent because of the tax increase in Mexico. It's not a minor tax, it's a very large tax increase. So we need to be prudent. But that only reaffirms our commitment to our sustainable long-term growth model. We need to come out of this stronger and continue accelerating what all of our territories outside of South America.

Gerry?

A - Gerardo Cruz Celaya

Yeah. Thank you, Ricardo. And to briefly complement Ian, I would like to just connect a few of the points that Ian mentioned regarding first our grow the core strategic initiative, as well as our digital enablers as our second most important growth strategic priority. Because it came or it's coming at the right precise moment that we can leverage those

digital capabilities and the AI-enabled capabilities that our platforms have to take the best advantage of our revenue growth management initiatives at a moment where specifically in Mexico we're facing important challenges with the IEPS tax coming online.

Going to capital allocation, Ricardo, I think we are very -- or following very closely our capital structure situation. We understand that we are pending to give information to the market regarding what we're doing with our dividend strategy. Given that we're facing this challenge in Mexico with the IEPS, we're holding on a little bit to see how cash flow behaves during the year. We'll certainly try to do our best to have the less disruption possible from this effect in our cash flow generation. But we're being a bit cautious, just waiting out and see how the first half of the year develops with the World Cup coming on and see how our projection for cash flow for the remainder of the year progresses. So we'll give you a bit more information as the year moves on.

Q - Ricardo Alves

Thank you very much, Ian and Gerry, for the complete answers. Appreciate it.

A - Gerardo Cruz Celaya

Thank you.

Operator

Our next question comes from Thiago Bortoluci with Goldman Sachs. Sir, you can open your microphone.

We are going to move on to the next question that comes from Rodrigo Alcantara with UBS.

Q - Rodrigo Alcantara

Hello, can you hear me?

A - Ian M. Craig Garcia

Yes, Rodrigo. Hello.

Q - Rodrigo Alcantara

Awesome. Hello. Hello, Jorge, Ian, Gerry, nice to hear from you. One question for Ian to elaborate on the very encouraging momentum observed in Brazil, right? I mean, we discussed here in terms of the zero concepts momentum, but also judging on competitors' performance, looking -- your performance is quite strong as well. So I'm not sure if we're -- if it's a matter also of price relativity, allowing you guys to give your performance, digital tools. Just want to understand the drivers behind not only the strong category growth momentum, but also the relative performance versus competitors, Ian, in Brazil. That would be for NAB, for non-alcoholic beverage.

And the other question for Gerry, and this is a topic that, to tell you the truth, I mean, we were asked as was writing the review today, what happened to cash flow? I mean, to -- I mean, there was a meaningful outflow in working capital, Gerry, that actually burned all the gains that we saw at the EBITDA level. So I just wanted to -- I mean, investors wanted to understand precisely this on what happened to working capital. And if I recall correctly, I mean, it's something to do with payables and stuff like that, but it's a topic that we have previously discussed in the past. So I thought that we had turned the page on that. So just curious on this and when can we expect some sort of normalization on working capital? Those would be my two questions. Thank you very much.

A - Ian M. Craig Garcia

Hi, Rodrigo. Just in terms of the market performance, Brazil is the perfect example of having decided to adopt a long-term sustainable growth model, where we are leveraging top-notch portfolio brands, consistent investment year over year over year above the line and below the line, with the widest distribution and network focusing on expanding our customers, improving our customer service metrics, and also rolling out digital enablers. So it's a combination of that consistency year-over-year. And you end up improving your relative competitive position that fits into more scale -- it fits into a more orderly market. You can end up continuing to leverage again your scale, and you see it on where we have decided to focus.

I mean, the Coke Zero playbook worldwide for the system is called the Brazil playbook for a reason. So it was developed there, it's working for Coke Zero, it continues to work, and now we've rolled it out across other geographies and it's working as well. Sprite Zero, nothing short of amazing what we're doing there. The growth that we saw in Sprite Zero last year and has continued again into this year, which is also by the way great news when we think of the impact that is going to at some point start to flow through on the GLP-1s. It's great for us to improve our non-caloric mixes.

So in Brazil, I would say it's a story of consistency behind our strengths that I mentioned in the prepared remarks. And it's just feeding through and we're very fortunate to now be at a stage where we have very advanced AI enablers all rolled out and scaled in Brazil, and we just continue to fine-tune them. And that continues to show through. I mean, when you look at the share that we are winning and exclude the effects of Rio Grande do Sul, so if you look at mature territories, so Sao Paulo and Minas, I mean, these are very large share gains, and they come from that consistency.

A - Gerardo Cruz Celaya

Hi, Rodrigo, and thank you for your questions and for your time. Regarding working capital, it's exactly accounts payable, the effect that you're seeing, and it's an effect in the base. Just to remind everyone in the call, we are in the process of rolling out and deploying the implementation of our new ERP, SAP S/4HANA. Due to delays last year, we had a significant increase in accounts payable that were a big effect in fourth quarter of '24. So when you compare it to a normalized fourth quarter of '25, you see that large reduction in accounts payable, which basically is the whole effect that you're seeing in working capital. We have normalized that for the year and don't expect to see any further disruptions coming from accounts payables or receivables for 2026.

Q - Rodrigo Alcantara

Awesome. And so just to confirm, starting 1Q '26, we should go back to normal on those outflows or inflows on working capital?

A - Gerardo Cruz Celaya

That's correct.

Q - Rodrigo Alcantara

Okay.

A - Gerardo Cruz Celaya

Even since fourth quarter '25, I would say, is the normal. The disruption comes from the base, fourth quarter '24, where when we had unusual increase in accounts payable, back then.

Q - Rodrigo Alcantara

Okay. No, that's encouraging. I mean, it's excluding -- I mean, that said, I mean, it was a great quarter, guys. Congrats. Thank you.

A - Ian M. Craig Garcia

Thanks, Rodrigo.

Operator

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

Q - Thiago Bortoluci

Good morning, everyone. Can you hear me now?

A - Ian M. Craig Garcia

Hi, Thiago. Yes.

Q - Thiago Bortoluci

Ian, thank you very much, and sorry for the back and forth. I would just like to move the conversation back into Mexico with two follow-ups. The first one, I know you mentioned January moving in line with expectations, and it's still too early to call for a more aggressive capital location. But I remember having prior conversations on pricing. Obviously, the industry as a whole has been pretty clear in passing the IEPS, but we had some diverging views on whether to go for a second round of increase to cover the underlying raw materials inflation, right? So the first question is, with the elasticities that you are seeing so far in Mexico, how comfortable you are or not in implementing

another round of price adjustments, this time to cover your underlying cost inflation?  
This is the number one.

And then the number two is, with the level of hedges that you have so far, particularly on the FX line, what's the visibility that you have in the direction of your gross margins and cost inflation for the next 12 months? That's the questions. Thank you very much.

A - Ian M. Craig Garcia

I'll take the first half, Gerry. It's still too early to tell a-way[ph]. We need to let the first half -- the first quarter flow through. If you remember, the January of last year was very strong. Then we have February where we started seeing changes in sentiment. And in March, we started seeing both the change in sentiment as well as weather. So it's too early to tell. We need to be a little more cautious.

From what I see today, I can tell you is the elasticity is behaving as we have imagined. The consumer is still sluggish in Mexico, so it wouldn't be prudent to venture into an additional increase today. At least I need to see how we end up closing the quarter and things are reacting before -- and that gives us plenty of time, in any case, before we could do any sort of adjustment -- additional adjustment.

A - Gerardo Cruz Celaya

And Thiago, connecting my answer to Ian's, I would say, gross margins for Mexico, we are seeing a bit of pressure. We're certainly going to follow up on any pricing decisions that we have to make. We're being very cautious, but we are very concerned with maintaining sustainable growth for the long term and following up on that promise to the market. But we are seeing a bit of pressure in gross margins, even though we see a benign raw material environment with the exception of aluminum. We see flattish to favorable prices in sweeteners, in plastic, but we do see a bit of pressure in aluminum that should result in some pressure in gross margins that we're aiming to try to compensate in fixed costs and expenses to try to deliver as close to flat EBIT margins as possible. It's still a work in progress, but that's what we're expecting for the year.

A - Ian M. Craig Garcia

For the full year.

A - Gerardo Cruz Celaya

Exactly.

Q - Thiago Bortoluci

That's great. Gerry, Ian, thank you very much, guys.

A - Ian M. Craig Garcia

Thank you.

Operator

Our next question comes from Renata Cabral with Citi.

Q - Renata Cabral

Hi. Hi, Ian, Gerry, and Jorge. Thank you so much for taking my question. My questions are about the Brazilian operation, some follow-ups. So the first one, it's regarding the supply chain improvements. We have discussed it in the previous quarter, the improvements, because the normalization of the operation Rio Grande do Sul. My question is, how much of incremental savings potential remains in the distribution cost to serve for 2026, or if in this specific line we are getting to a peak?

And my second question is a follow-up regarding CapEx investments in Brazil. Is Brazil still receiving incremental capacity investment, or does the current footprint support the growth in the upcoming years without incremental fixed cost improvement or investment this year? Thank you.

A - Ian M. Craig Garcia

Hi, Renata. I would say we still have a couple of months where we're cycling still the Porto Alegre plant closure. So most of the improvements you're going to see really in freight come from that extra freight that was occurring there up until May. In terms of capacity, I think we put in over four -- over five lines in Brazil. So we've done a lot for the short term in Brazil in terms of lines, and that should not be an issue.

Given the growth that we're seeing, if this continues so strong. And we have to see -- remember, 2027, a new tax is going to come into effect. So it's a little early to say whether we'll need -- when we'll need a new plant in Brazil. So our projections today is that we will need one to start around 2030. So investments for that would be in 2029. So I would say from here to 2028, things are at lower level of investments because we have already invested quite a bit. So from having invested around 8% of revenues, we should go down to around 6.5% over the following years, and then it steps up again in 2029 with the start of a new plant. That's the base scenario, but we have to see what sort of impact we see in 2027 from the tax. Okay?

Q - Renata Cabral

Okay. Super clear. Thank you so much.

A - Ian M. Craig Garcia

Thank you, Renata

Operator

Our next question comes from Alvaro Garcia with BTG.

Q - Alvaro Garcia

Hey, Ian, Gerry, Jorge, I hope you guys are doing well. I have two questions. I have a bigger picture question on affordability in Mexico in the context of you've stated your long-term sustainable growth model. I just -- if you zoom out, is it fair to assume that we

could be entering just sort of a longer period of affordability? And we obviously had a phase, let's say, in the 2015, '16, '17, where you probably passed a little too much price, and we've discussed that in the past. Given your price gaps today, so maybe some commentary on that would be helpful relative to your competition. And just given the tax and given what the consumer is feeling, is it fair to assume that we could be entering just a multi-year cycle where you're maybe favoring volumes in the context of your long-term sustainable growth model? So any thoughts there would be greatly appreciated.

And then just one quick one, Gerry, on CapEx levels for 2026. I think last quarter you mentioned potentially lower CapEx levels. I'm not sure if you've mentioned it on this call yet or not. I know you cleared up sort of capital allocation, but any comments on specific CapEx levels for 2026 would be helpful as well. Thank you.

A - Ian M. Craig Garcia

Hello, Alvaro. I think your general read is on point. We believe this model is the one that delivers the best results, not only in terms of share of volume or even share of value, but also in terms of sustainable bottom line growth. So we saw this -- like you mentioned, we lost too much share in the eight to 10 years prior to 2022. We adjusted the strategy, then it reacted very quickly in 2023, so much so that then we had an availability issues in 2024. Now I'm talking about Mexico. Then last year, I would say, was a bit of an outlier with everything that happened with the consumer. The reaction again recovered the impact that we have, but that was a, I would say, an event-driven strategy to quickly recover the changes in consumer sentiment.

When we look at what's going to happen, and what is transpiring in 2026 in Mexico, we're very convinced that it's the right strategy. Because, when you're passing through the IEPS tax -- price tax increase, it's sort of a similar effect to what we saw in Argentina from there from the economic crisis, or in Panama after having to adjust our portfolio. The consumer -- we don't want to lose household penetration. It's very important that we maintain that penetration, and it's really a 12-month thing. We don't see it as longer term than that. So we need to come out, and we're planning to come out of this IEPS impact stronger, with a stronger relative position.

I think we're very -- the price gaps are manageable where they are. So the strategy should pay off. It's worked in the other markets, it worked in Mexico as well. We're missing one price point where we're going to be launching a new returnable presentation, but we're keeping that under wraps until that's in the market. But outside of that, we're where we need to be, positioned where we need to be, and it's starting to show.

So I think it's a 12-month thing, Alvaro, where we reposition this. And then we will grow in terms of RGM initiatives and pricing as much as our market gives us, while maintaining increases in competitive position. It's really dictated by that.

A - Gerardo Cruz Celaya

Alvaro, I would like to highlight very quickly two aspects that are -- that I think are very relevant for the implementation of the strategy that Ian was elaborating on, which is our digital capabilities. The ability that we have now to capture and process information from

the market and act on that information quickly through our revenue growth management initiatives, I think is -- puts us in a very strong position to address both the situation that we're facing in Mexico this year, and the situation that we will be facing next year in Brazil with the start of the excise tax there as well.

The other thing -- component I think that is worth mentioning is, we have the learnings from the experience we had in 2014, with -- when the IEPS was originally enacted. So that will allow us to -- or is allowing us to take more informed decisions with respect to the market to address our growth opportunities in the best way selectively throughout the market.

Regarding your question on CapEx, as we were talking about the last couple of years, last year we invested 8.2% of revenues for the whole year, with a big increase coming from deploying capacity both in manufacturing and distribution. For this year, we're expecting, given the phasing out that Ian already mentioned in our southeast plant in Mexico, as well as our plant in Brazil, we're able to generate a little bit of savings in our investments for this year, dropping our CapEx to revenues from a range of 7% to 7.5%, probably ending in the lower end of that range for the year, with the expectations that we have in our business plan.

Q - Alvaro Garcia

Wonderful. Thank you very much to both.

A - Ian M. Craig Garcia

Thank you, Alvaro.

Operator

Our next question comes from Froylan Mendez with J.P. Morgan.

Q - Froylan Mendez

Hello, guys. Can you hear me?

A - Ian M. Craig Garcia

Yes, Froy. Hello.

Q - Froylan Mendez

Excellent. Thank you, Jorge. Thank you, Ian. Thank you for taking my question. You mentioned December was the highest monthly volume in Mexico. Was there any overstocking, probably a reaction from the different channels, with the upcoming hike on the taxes? Also, you mentioned that price gaps are manageable. Does that mean that the price gap was reduced? And is that a sense that you have been gaining share so far with this IEPS implementation in the industry? That would be great if you could give us some color on how competitors have reacted. Thank you.

A - Ian M. Craig Garcia

So I don't -- we don't believe there's a stock effect in those -- in that December figure. Firstly, because we never adjust all channels at the same time. And in this case, we adjusted the traditional trade mid-month. So any event of overstocking was, let's say, flow through within the month. So that was done around the mid-December. And the modern trade, as you know, has a huge incentive to improve their working capital in year-end. So they did not really stock in any major form entering into January, and that price flowed through in January. So I don't see that major effect in the Mexico December volumes. It was the highest December on record for our four largest operation, and it was the highest fourth quarter on record for Guatemala, Colombia and Brazil. So those are like underlying green shoots that tell you about the strength of the NARTD market that we serve, Froy.

And in terms of the price gap, it varies a lot by competitor, region and channel. So what I can tell you is the overall mix, it's either the same or very slightly improved than what we had before. But it's very different by competitor and channel geography. It's not a homogeneous thing.

A - Gerardo Cruz Celaya

You mentioned

Q - Froylan Mendez

So, no

A - Gerardo Cruz Celaya

-- a bit about...

Q - Froylan Mendez

no competitor doing anything crazy, right?

A - Ian M. Craig Garcia

No, no deterioration in the price gap. You could say we -- there are some competitors that are being aggressive in certain channels and geographies. What I'm giving you is the blended overall picture.

Q - Froylan Mendez

Perfect. Thank you.

A - Gerardo Cruz Celaya

You mentioned, Froy, a bit about share performance. I think we're very proud of the job, as Ian mentioned in prepared remarks, of the job that the Mexico team did recovering from the backlash effect that we had in the second quarter of last year. And we're very excited of the base from where we're starting this year, having recovered that share. So this should be a good position, a good platform to start this year, that we're facing the

challenge of the IEPS, with the pricing strategy and RGM initiatives that we elaborated on.

Q - Froylan Mendez

Perfect. Thank you so much.

Operator

Our next question comes from Antonio Hernandez with Actinver.

Q - Antonio Hernandez

Hi, good morning. Thanks for taking my question. Just a quick one regarding -- I mean, you mentioned the different tailwinds for Brazil, especially for this year, and next year might be a little bit more complicated. But more specifically, how are you seeing in terms of any volume guidance or sales guidance in Brazil for the year? Thanks.

A - Ian M. Craig Garcia

Sales guidance, Antonio, what I can say is, the year started off this first semester continuing on the back of a strong trend. We've seen no changes there. We had good weather in January. We have social programs. We have election-related spending. So everything moving on strong in Brazil.

Anything that you want to share on

A - Jorge Collazo

Yeah, maybe to complement on that part, Ian, I would say that with all the tailwinds that we're seeing, and so far Brazil has been to a good start of the year. Both January and February have been good months. Some of these tailwinds are already materializing from the social spending. Even weather has been positive. So with all things considered, I would say that we expect to grow volumes in Brazil this year, which, as you know, when you zoom out and you see Brazil over the past couple of years, all years have been quite strong. And we have been able to outperform even to initial expectations, that was or has been what has been happening in Brazil. So all things considered, I would say that if we were to put a number, and please consider this as an early take for the year, I wouldn't call it guidance. But I think we can work with positive volumes probably on the low- to mid-single-digits range. But we will progressively update you on that as the year progresses. But I think that's a fair assumption for you guys to model.

A - Gerardo Cruz Celaya

If I may add, Antonio, I think we're cautiously optimistic and a bit excited of what we've been seeing in terms of share gains in Brazil. I want to highlight this because it's a particular situation Ian mentioned it in one of the earlier questions, but one of the big boosts that we're getting from the launching of our Advisor tool in Brazil, that is also online in Mexico, and are excited for what we may see in Mexico as well. But a good result that we've seen is -- has resulted in share improvement through improvement in

combined coverage both in CSDs and stills. This tool allows us to better execute at the point of sale, reducing out of stocks as much as possible, and this has resulted in good share trends in all of the categories, which is especially exciting when we see the breakdown. So we're optimistic of what this tool will bring for the rest of our business, especially with the late last year launch in Mexico and the expectation of launching in Colombia and Guatemala this year.

Q - Antonio Hernandez

Great. Congrats on your results. Thanks.

A - Gerardo Cruz Celaya

Thank you.

A - Ian M. Craig Garcia

Thank you, Antonio.

Operator

Next question from Gabriela Martinez with Banorte.

Q - Gabriela Martinez Mosqueda

Hi, guys. Good morning. Thank you for taking my questions. Do you already have an estimate of the impact of the World Cup? And could you share more details on your strategies to capitalize the opportunities it will bring?

A - Jorge Collazo

Hello, Gabriela. Yes, it's Jorge here. I think as Ian and Gerry have mentioned in previous earnings calls, we are very excited about the opportunity that the World Cup brings, not only because of the local aspect of being a host country, but perhaps most especially for the power that it has for our brands. Creates a lot of opportunities for us to engage with the consumers, with the customers, with activation, and not only for brand Coca-Cola, Coke Zero, but also in other categories as Powerade, for example. So we're, as I said, very excited about that.

It's hard to put a number, like to put a number on the model, let's say, for the World Cup. But I would say the most important upside that we see for the World Cup is regarding to brand engagement, the opportunities on frequency. That is a great opportunity for us to capitalize, and I would say not only in Mexico, in other markets as well. It's a great opportunity to gather. It brings more consumption occasions. And that's a great, great opportunity that we have. We have the -- for example, not only during the tournament, but even before and even after the tournament, we have a lot of activations happening. We have the trophy tour ongoing. It's coming to Mexico as well. So those are the kind of opportunities that I would highlight for the World Cup.

A - Gerardo Cruz Celaya

If I may add, Gabriela, as well, regarding the FIFA World Cup and the expectations for the year, we are particularly proud of the strength and depth of our portfolio of products, because we can offer a product for all of the different consumption occasions that our consumers will have around this event, be it at home, be it on the road, or be it on the venues occurring in -- during the event itself. So we offer a consumption occasion and a brand and an SKU that allows us to capture all of these opportunities, be it hydration, be it energy, be it indulgence. All of this is -- has a lot of synonyms with the World Cup. And we're proud to be able to serve the Coca-Cola portfolio of products around this event, which is a good engagement -- brand engagement event for us.

Q - Gabriela Martinez Mosqueda

Okay. Thank you very much.

A - Gerardo Cruz Celaya

Thank you, Gabriela.

Operator

Our next question comes from Fernando Olvera with Bank of America.

Q - Fernando Olvera

Hi. Hello, guys. Can you hear me?

A - Jorge Collazo

Hi, Fernando, yes.

Q - Fernando Olvera

Great, thank you for taking my question. Just a quick follow-up regarding volumes. You have mentioned, or you shared some outlook on Mexico and Brazil, but maybe if you can give some color about what you're expecting on a consolidated basis, all mainly given the strong recovery that we have seen in Argentina, Colombia, and the very good performance of Guatemala, that would be great. Thank you.

A - Jorge Collazo

Yes, Fer, thanks for the question. Look, when we put it all together, as you mentioned, we've already mentioned low-to mid-single-digits decline in Mexico, low- to mid-single-digits growth in Brazil, and the rest with the -- putting it all together with the rest of the markets, I would say consolidated volume for 2026 will be a more of a flattish year. Of course, flattish to slightly positive, I would say, if we were to give a range. That's what the team is working on. Of course, we will, as I mentioned before, progress you along the year as the year progresses. Ian and Gerry highlighted the effect of the excise tax that is ongoing, and we need -- still need to get a feel on that. So consider this like an early take on the outlook. But there are several moving pieces, but this is what we have for now, what we've been working on, and of course the team is very focused on achieving growth this year.

A - Gerardo Cruz Celaya

So Ian mentioned, Fer, our sustainable growth model, and we've been talking about this for the past few years. I highlighted performance and share that we are seeing positive performance and share across our territories. So our teams are striving to get -- to return to this path of growth in all of our operations. And I think this year we certainly will be aiming to deliver a slight volume growth across our territories.

Q - Fernando Olvera

Okay, great. Thanks so much, Jorge and Gerry.

Operator

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.

A - Jorge Collazo

Well, just to thank everyone for your interest in Coca-Cola FEMSA and for joining us on today's call. As always, we are available to answer any remaining questions, and we look forward to meeting with you, hopefully in person, throughout the year. Thank you very much.

Operator

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