

Coca-Cola FEMSA, S.A.B. de C.V. (NYSE:KOF) Q3 2025 Earnings Call October 24, 2025 11:00 AM EDT

Company Participants

- Ian Craig - CEO
- Gerardo Celaya - CFO
- Jorge Collazo - Director of Investor Relations

Conference Call Participants

- Ricardo Alves - Morgan Stanley
- Alejandro Fuchs - Itaú Corretora de Valores S.A.
- Lucas Ferreira - JPMorgan Chase & Co
- Benjamin Theurer - Barclays Bank PLC
- Ulises Argote Bolio - Santander Investment Securities Inc.
- Thiago Bortoluci - Goldman Sachs Group
- Rodrigo Alcantara - UBS Investment Bank
- Renata Fonseca Cabral Sturani - Citigroup Inc
- Antonio Hernandez - Actinver Casa de Bolsa
- Felipe Ucros Nunez - Scotiabank Global Banking and Markets

Presentation

Operator

Hello and welcome to the Coca-Cola FEMSA Third Quarter 2025 Conference Call. My name is Sophia and I'll be your moderator for today's event. Please note that this conference is being recorded.

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 - *Director of Investor Relations*

Good morning and welcome to this webinar to review our third quarter 2025 results. Joining me this morning are Ian Craig, our Chief Executive Officer; Gerardo Cruz, our Chief Financial Officer; and the rest of the Investor Relations team.

Before I hand the call over to Ian, let me remind all participants that this conference call may include forward-looking statements and should be considered as good faith estimates made by the company. These forward-looking statements reflect management's expectations and are based upon currently available data. 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 went out this morning. As previously mentioned, after our management's prepared remarks, we will open the call for Q&A.

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

Ian Craig - CEO

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

Before reviewing our third quarter results, I would like to take a moment to express our sincere support for all of those affected by the recent storms in Mexico. This year's Tropical Storm Raymond brought torrential rain during the first weeks of October, impacting Central and Northeast Mexico. In accordance with our principles and protocols, we're taking action to prioritize the well-being of our teams and their families while also supporting local communities. We're working hand-in-hand with FEMSA and the Coca-Cola Company on several community relief initiatives as we always do during these unfortunate natural disasters. We are hopeful that with everyone's support, the affected communities may soon be back on their feet.

Also, we are deeply saddened by the recent passing of our esteemed Board member, Ricardo Guajardo Touché. Ricardo was a member of Coca-Cola FEMSA's Board since 1993, sharing his valued insights in its finance committee and was committed to advancing economic, educational and social development in his community and throughout the country. We offer our condolences and prayers to the Guajardo family.

Now moving on to discuss our results. During the third quarter, Mexico continued facing a soft macro background, impacting consumer preferences and demand. On the other hand, South America enjoyed a more resilient macro and consumer environment, which supported positive volume performance. Despite this environment, our consolidated results improved sequentially as we implemented cost control and productivity initiatives. As we look beyond this year, we will leverage Coca-Cola FEMSA's ability to adapt to challenging operating conditions, including the impact of the recent beverage excise tax increase in Mexico. We are confident that focusing on our sustainable growth model, combined with RGM affordability initiatives, short-term productivity and cost control measures and the revised CapEx investment level is the best way to navigate these conditions, while maximizing value for our stakeholders.

Now let me expand on our consolidated results for the third quarter. Our consolidated volume declined 0.6% to reach 1.04 billion unit cases, a sequential improvement versus the second quarter, which is partially explained by a softer comparison base in Mexico than the one we faced during the first half of the year. In particular, the quarterly volume decline was driven by contractions in Mexico and Panama that were partially offset by the growth achieved in the rest of our territories. Total revenues for the quarter grew

3.3% to MXN 71.9 billion, led by revenue management initiatives that were partially offset by a volume decline, promotional activity and unfavorable currency translation effects from the depreciation of the Argentine peso and most currencies in Central America. On a currency-neutral basis, our total revenues increased 4.7%. Gross profit increased 0.9% to MXN 32.4 billion, leading to a margin contraction of 100 basis points to 45.1%.

This margin performance was driven mainly by an unfavorable mix, increased promotional activity and fixed costs such as labor and depreciation, partially offset by a better sweetener and PET cost. Our operating income increased 6.8% to reach MXN 10.3 billion, with operating margin expanding 50 basis points to 14.3%. This operating margin expansion is explained by expense efficiencies such as freight and marketing across our operations, coupled with an operating foreign exchange gain. These effects were partially offset by higher depreciation, labor and IT expenses. It is important to consider the recognition of a onetime income of MXN 218 million of insurance claims recovered in Brazil, net of expenses during the third quarter of 2025. Adjusted EBITDA for the quarter increased 3.2% to MXN 14.4 billion, and EBITDA margin remained flat at 20.1%. Finally, our majority net income increased slightly to reach MXN 5.9 billion, driven mainly by operating income growth that was partially offset by an increase in our comprehensive financial results.

Now diving deeper on our key markets performance for the quarter. In Mexico, our volumes declined 3.7% as we continued facing a soft macroeconomic backdrop. For instance, consumption drivers such as remittances and formal job creation have declined year-on-year. In this environment, consumers are looking for the best value equation and our strategy remains clear, implement top line initiatives to incentivize demand by focusing on providing affordability and attractive price points, allowing us to capture share opportunities. To achieve this, we have made adjustments throughout the year to our promotional grid and [Technical Difficulty] across formats and channels. As I mentioned during our previous call, these initiatives have led us not only to recover share in the modern channel but also to surpass previous year's levels, achieving now more than 6 percentage points of recovery, which positions us at a record level in this important modern channel.

In the traditional trade, promotions and execution are also contributing to share recovery, especially by leveraging refillable multi-serve packs. The adjustments we have made to our price pack architecture in multi-serve refillable packs from July to September are showing encouraging initial results, reversing volume declines in this segment of the portfolio. Moreover, Coca-Cola Zero continues delivering positive results, growing 23% versus previous year, [indiscernible] plans increased connect with consumers with the right communication and execution. Indeed, Coca-Cola Zero has grown more

than 40% as compared with 2022. In addition, our flavor sparkling portfolio is also ahead of previous year's share levels, driven by the recovery achieved in the modern and on-premise channels. To achieve this, we are combining global strategies in core brands such as Fanta and Sprite with local heroes such as Mundet and other heritage regional brands.

These top line initiatives are supported by our ambition to install a new record of 125,000 coolers during the year. In digital, we are encouraged to share that we are now rolling out our state-of-the-art salesforce tool, Juntos+ Advisor in Mexico. This digital tool has been fundamental in supporting share improvements and service levels in Brazil and we expect to see its positive impact in Mexico in the upcoming quarters as adoption matures. Now I would like to discuss recent developments in Mexico. As you know, last week, the House of Representatives approved a federal revenue law presented by the executive branch, including a significant 87% increase in the excise tax on soft drinks, taking it from MXN 1.64 per liter to MXN 3.08 per liter and installing a new excise tax on noncaloric formulas of MXN 1.5 per liter. The federal revenue law is currently pending approval by the Senate and once approved, it would take effect on January 2026.

During the past month, we engaged with the government in conversations regarding the proposed excise taxes. As a result of these interactions, the Coca-Cola system in Mexico reaffirmed its commitment to continue incentivizing low and noncaloric products as well as to maintain an open and constructive dialogue with the health authorities in Mexico. As we look to 2026, we expect another challenging year for volume performance in Mexico, with our customers and consumers dealing with the impact of the excise tax increase together with an economy that is expected to grow a modest 1.5%. However, we anticipate a positive impact on brand equity due to the World Cup as has been the case in host countries for these incredible assets. Taking all of these factors into consideration, we believe that the best course of action for our business in Mexico is to continue focusing on our sustainable long-term growth model while addressing the short-term headwinds with RGM initiatives, productivity and cost control measures and a revised CapEx investment.

Now moving on to Guatemala, where our volumes increased 3.2% to reach 50.8 million unit cases. In this important market, we continue seeing a higher propensity from consumers to save. Amid this background, we continue outperforming the industry by gaining share in key categories such as sparkling beverages, water and energy. Notably, Coca-Cola Zero Sugar grew 16.9% year-on-year, while additional capacity is allowing us to strengthen our performance in flavors with Fanta and Sprite growing 8.8% and 3.8%, respectively. Commercial enablers are another area of focus, and I'm encouraged to report that Juntos+ and Juntos+ Premia continue growing at a fast pace. During the quarter, we surpassed 100,000 digital monthly active users in Juntos+, 25,000 more than the previous year, with more than 73% of these users active on the app. This is 23

percentage points more than in the first quarter of the year, underscoring our customers' fast adoption. Finally, in Juntos+ Premia, we have more than 46,000 clients redeeming points, which is more than double what we had in 2024.

As we look towards the end of the year, we are adjusting our initiatives to continue optimizing our portfolio, capturing white spaces in key categories and executing rigorous cost control and productivity initiatives to grow sustainably and profitably.

Now moving on to our South America division. In Brazil, despite lower average temperatures than the previous year and size of slower growth, we were able to increase our volumes 2.6% year-on-year, driven by share gains. As has been the case throughout the year, additional capacity, coupled with the reopening of our plant in Porto Alegre is supporting share gains in the nonalcoholic ready-to-drink segment. Notably, in the sparkling category, regions like Minas Gerais and São Paulo are more than 1 percentage points ahead of the previous year. And in Rio Grande do Sul, we have recovered approximately 5 percentage points of the total 8 points that were lost due to the temporary closure of our plant. Another highlight from our operation in Brazil remains the continuous growth from Coca-Cola Zero, which during the quarter grew volumes by 38%, supported by the Star Wars campaign that began last September in both Coca-Cola Original and Coke Zero.

Regarding still beverages, we saw double-digit growth in juices and energy. In the case of Monster, last month, we launched a new flavor with a local Brazilian appeal, Monster Rio Punch, underscoring continuous innovation across the portfolio. On digital enablers, our monthly active user base in Juntos+ continues expanding with 18,000 additional customers and a 15.8% increase in average ticket size. Importantly, the Juntos+ Premia loyalty customer base increased 40% year-on-year. We remain encouraged by the results we are seeing from the nationwide rollout of Juntos+ Advisor, which, as I have mentioned in previous calls, is a game changer for our sales force and is supporting Brazil's positive share performance. Finally, in Brazil, we continue showing strong improvements in the supply chain front, which translate to increased customer satisfaction. For instance, order fulfillment during the quarter improved 1.9 percentage points as compared with the previous year to reach 94.5%. Similarly, our delivery service metrics improved 1 percentage point to reach 94.6%, supported by declines in product unavailability.

For the remainder of the year in Brazil, we will continue striving to outperform the industry, leveraging our digital initiatives and our customer-centric culture as we aim to continue improving our profitability by controlling expenses and increasing productivity. In Colombia, our volumes grew 2.9%, reflecting a gradually recovering economy, driven by improving sectors such as commerce, services and agriculture. Notably, the consumption basket for fast-moving consumer goods has gradually recovered over the past 5 months, driven mainly by an increase in the average ticket.

Our positive volume performance is supported by share gains in brand Coca-Cola, flavors and water with clear opportunities for us to reverse the trend in stills. Regarding brand Coca-Cola's category growth, we are leveraging affordability initiatives and managing price gaps in both multi-serve and single-serve, while supporting the growth of Coca-Cola Zero Sugar. Additionally, in flavors, we're encouraged that for the first time in our Colombia franchise's history, Quatro, our great fruit flavor brand, is the #1 flavored sparkling beverage in the country.

On the digital front, we are enhancing adoption with monthly active buyers growing 27% year-on-year. We expect to continue leveraging the capabilities of our Premia loyalty plan to drive adoption and generate additional frequency. Finally, we're encouraged by the fact that the CapEx investments behind our supply chain have addressed key logistical pain points, allowing us to improve our cost-to-serve by reductions in primary freight costs and third-party warehouse expenses. Finally, despite facing what is still a complex environment in Argentina, our volumes increased 2.9%. Our strategy during 2025 can be summarized in 4 key elements: enhancing the affordability of plans we implemented since 2024 during the sharp macro adjustment; two, accelerating single-serve mix; three, leveraging digital with the rollout of Juntos+; and four, maintaining a lean and flexible cost structure.

During the quarter, we continued delivering positive results across these elements of the strategy. For instance, we have consolidated the execution of what we call [Sección de Ahorros] sections or savings home section, which are attractive promotions and price points for our consumers. [Sección de Ahorros] is now present in more than 87% of our customers and growing. Regarding our single-serve mix, we reached 25.8%, which represents a 1.8 percentage point increase as compared to the previous year, driven by an 11% recovery in the number of on-premise clients. In digital, we began the rollout of Juntos+ last June. And thanks to its rapid adoption, more than 40% of our client base are now monthly active buyers.

Amid Argentina's complex context, we have and will continue emphasizing responsiveness in managing a flexible and lean cost and expense structure. As we look to the last chapter of 2025 and adjust our plan for 2026, we feel encouraged to be a part of a resilient beverage industry. We have a clear long-term strategy, supportive shareholders in FEMSA and the Coca-Cola Company and a committed team focused on continuing to make Coca-Cola FEMSA a stronger and more adaptable organization.

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

Gerardo Cruz- CFO

Thank you, Ian and good morning, everyone. I will begin by summarizing our divisions' results for the quarter.

In Mexico and Central America, volumes declined 2.7% to 612.1 million unit cases, driven by volume declines in Mexico and Panama that were partially offset by growth in Guatemala, Nicaragua and Costa Rica. Revenues decreased 0.2% to MXP 42.5 billion, driven mainly by volume decline, unfavorable mix effects and promotional activity. These effects were partially offset by our revenue management initiatives. On a currency-neutral basis, revenues remained flat. Gross profit decreased 2.6% to reach MXN 20.2 billion, resulting in a gross margin of 47.5%, a 110 basis point contraction year-on-year. This margin contraction was driven mainly by unfavorable mix effects and promotional activity, coupled with higher fixed costs such as labor. These effects were partially offset by lower sweetener costs and the appreciation of the Mexican peso as applied to our U.S. dollar-denominated raw material costs.

Operating income increased 1.1% to MXN 6.8 billion and our operating margin expanded 20 basis points to 16%. This expansion was driven mainly by a decrease in freight expenses and an operative foreign exchange gain on MXN 159 million as compared to a loss of MXN 298 million during the same period of the previous year. These effects were partially offset by an increase in expenses such as labor, IT and depreciation. Finally, our adjusted EBITDA in the division declined 1.4% with a 20 basis point margin contraction to reach 21.9%.

Moving on to South America. Volumes increased 2.6% to 423 million unit cases. This increase was driven by positive volumes across the division. Our revenues in South America increased 8.7% to MXN 29.4 billion, driven mainly by our revenue management initiatives and favorable mix. These effects were partially offset by unfavorable currency translation effects into Mexican pesos. On a currency-neutral basis, total revenues in South America increased 12.5%. Gross profit in the division increased 7.2% and gross margin contracted by 50 basis points to 41.6%, mainly driven by labor, restructuring and maintenance costs. On a currency-neutral basis, gross profit increased 10.4%. Operating income in South America rose 19.7% to MXN 3.5 billion, with operating margin up 110 basis points to 11.9%. This improvement was driven by expenses -- expense efficiencies such as freight, marketing and the recognition of onetime income, net of expenses of MXN 218 million related to insurance claims from the floods that impacted Brazil in May of 2024.

Finally, adjusted EBITDA in the division increased 12.6% to MXN 5.1 billion for a margin expansion of 60 basis points to 17.6%. Now let me expand on our comprehensive financial results, which recorded an expense of MXN 1.2 billion as compared to an expense of MXN 823 million during the same period of the previous year. This increase was driven mainly by, first, a reduction in interest income as a result of a lower cash position and interest rates in Mexico and Argentina. Second, we recorded a foreign exchange loss of MXN 65 million as compared to a gain of MXN 49 million recorded during the same period of the

previous year. And third, a loss in financial instruments of MXN 39 million as compared to a gain of MXN 86 million in the third quarter of 2024. These effects were partially offset by a higher gain in monetary positions and inflationary subsidiaries.

Finally, I would like to take a moment to expand on the cost environment and commodity hedging strategies for the remainder of the year and into 2026. We feel confident about our ability to manage costs effectively. Although the trade environment may continue to generate some ongoing volatility, especially in aluminum prices, we are seeing more stability in the rest of our key commodities than in prior years, especially regarding sweeteners and PET. Additionally, our teams continue to focus on efficiency, productivity and disciplined procurement, which should continue to help mitigate pressures to our margins. On the hedging side, our approach remains disciplined and proactive. For the remainder of the year, we have already locked in a solid portion of our main commodities, including more than 90% for sweeteners, 75% for PET resin and 65% for aluminum, which gives us good visibility and comfort for the fourth quarter.

As we move into 2026, we will keep a flexible stance, protecting against potential volatility while taking advantage of favorable market conditions in raw materials such as sweeteners and PET. For instance, given current market conditions, we have already hedged more than 90% of our needs for the year in sweeteners and 40% for PET. Regarding currencies for 2026, we have hedged approximately 70% in Colombia, 40% in Mexico and 20% in Brazil at levels that are below 2025. Finally, I am pleased to report that our supply chain team has reached our savings commitment for the year ahead of time, generating \$90 million year-to-date, approximately \$43 million coming from primary distribution, \$32.5 million from cost-to-serve and \$14.5 million from cost-to-make.

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

Question-and-Answer Session

Operator

Our first question comes from Ricardo Alves with Morgan Stanley.

Ricardo Alves- Morgan Stanley

A couple of questions. I think that on our side, the main surprise of the quarter came on Mexico and Central America profitability. When we try to calculate the adjusted margin, so taking out the insurance gains from last year, we actually see Mexico and Central America margins up about 50, 60 basis points, if I'm not mistaken. So clearly, a big improvement from the 200 basis points decline that we saw in the second quarter. So to us, that's a remarkable improvement, obviously. But when I look forward, I'm interested in -- is this something that was mostly driven by a better operational leverage because volumes improved on a sequential basis? Or is it much more about internal initiatives and

cost-cutting initiatives that you may have put in place to adapt to a new reality of volumes? So I just wanted to go a little deeper on eventual efficiencies that you are looking within KOF in Mexico and maybe Central America because we don't have the breakdown exactly. So that would be my first question to explore a bit more the improvement on profitability.

My second question -- it's -- I do have another one in South America but I'll jump on the line again. But I wanted to explore this time Central America, Argentina and Colombia because typically, we spend a lot of time on Mexico and Brazil. And I think that after a while, it would be helpful, Ian, if we could explore again these markets. I remember, for example, a couple of years ago, we were talking about per caps in Guatemala, the opportunities that you saw when you took over in improving per caps. Given that Argentina has surprised us to the upside, I think that Coke FEMSA is outperforming a couple of other bottlers in the region.

Colombia is getting back on track and it's been a while that we don't discuss Guatemala in more details. I wanted to see with you, when you take a step back and you reflect on this past couple of years on the lead of the company, what were the strategies that worked for these 3 main markets outside of Brazil and Mexico? What are the things that didn't work that you still see an opportunity? So I just wanted to take a step back and take the opportunity to talk to you to see if -- it seems that there is something coming. Things are improving. So I just wanted to revisit the strategy for these, let's call it, secondary markets outside of Brazil and Mexico.

Gerardo Cruz- CFO

Thank you, Ricardo. I'll jump on the first one, first on profitability on Mexico and Central America. And there's a few parts to this question. So starting first on gross profit. We are continuing to see pressure on gross profit, even though we see volumes performing better versus last year, that's mostly related to having a lower base from the third quarter of last year. But we are seeing some gross profit pressures coming from mix that are affecting at the gross profit level. But going further down the P&L, the main reason for us turning around our profitability are savings initiatives.

We're working all across our P&L to identify and execute savings initiatives starting from raw materials cost and expenses that has been a tailwind for us this quarter. We're optimizing marketing spending. We went through also restructuring in our teams to adapt to our current volume conditions, also preparing for what we're expecting for next year and the supply chain initiatives and other smaller savings initiatives that we are working on. And also, there's a virtual effect that you see in EBIT margins also that we are benefiting from. This is related to operating expenses, accounts payable denominated in

foreign currency with a peso -- with a strong peso that is providing also relief to our EBIT margin as well.

Ian Craig- CEO

Gerry gave a very detailed explanation. But in terms of the strategy, it really was bringing our productivity back in line, Ricardo, the main driver. So like I had mentioned, this is such a resilient business that even if you have challenging volumes, you can still deliver on results, positive results, if you have your structure aligned for that sort of environment, which was our big miss in the first and second quarter where I could say it was tough to read because of the consumer backlash. But by the time we got around to having the real sense of what was going on in April, then in May, we started adjusting very quickly. And now our productivity is back in line and we have a much more lean structure. So that's what explains the turnaround in Mexico.

In the 3 markets that you mentioned outside of Mexico, Argentina, Colombia and Guatemala, it all follows under the same umbrella but with different recipes. And what do I mean? As I mentioned, our strategy is to have a sustainable long-term growth model. And why? Because this is a scale business, and it is critical that we continue to improve our relative competitive position because when you don't do so, then it becomes very complicated. Price gaps are stickier with competitors, you give them scale and you end up in a bad place. The way that played out in Argentina, which was the first one you asked about, was knowing that we were going to go into a very deep recession, we did not want to leave Argentine households.

So we wanted to maintain household penetration. So we did not pass along all of the increase in inflation in the initial shock. And that obviously implied to us a hit on the P&L. But when the bounce -- the recovery came, we were much better positioned. And that's why when you compare the system, for example, versus 2 years before the crisis, our volumes and our results are much better. And it has been a more resilient strategy to have not lost that relative scale. It was just -- all strategies are valid but I think ours played out well in the end.

In terms of Colombia, it's a big learning for us in Mexico because in Colombia, we faced a large tax increase such as the one that we're going to have to face in Mexico starting January. And what that essentially does is it shifts your volume 2 years out. So the growth that we were -- we had planned for '26, now instead of that growth in Mexico, we're going to have, like we had in Colombia, a volume decline to be followed by a recovery in the following year. So in essence, it shifts your curve 2 years out. And what we've done in Colombia is a full review of our OBPPC, focusing on key price points, focusing on key flavors leverages. And in Colombia, you see that year-over-year, we continue to gain share. And now that we've cycled the impact of the tax, we should be continuing to have,

I wouldn't say easier comps but comparable comps without the effect of a tax. So now it's -- we're on a comparable basis going forward in Colombia and we entered out of that tax disruption in a more favorable competitive position.

And in Guatemala, as we have mentioned, it's just a jewel of a market with a very young population becoming more urban with more disposable income. We hit a short-term turbulence there because with all of this risk on remittances, even though it has been more perceived than real because remittances haven't actually declined but they have slowed there. That anxiety, I would say, has trickled into consumers saving more. So we see nothing more in Guatemala other than a short-term adjustment to consumers saving more under the risk of them -- their family members losing the remittance sending capacity. But everything else being said, I would say this was an adjustment here there. We've also adjusted our structure, become more lean and are ready to resume growth there in Guatemala, where, by the way, our elasticities continue to work very favorably because of our share position. So there's still plenty of headroom there. I hope that was a good overview, Ricardo.

Operator

Next question from Alejandro Fuchs with Itaú.

Alejandro Fuchs- Itaú Corretora de Valores S.A.

Congratulations on the results. I have just one very brief one related to CapEx. I saw the comments Ian here and on the release about kind of rethinking CapEx a little bit for next year. We have seen at least 3 years of high investments. I wanted to see if you can share a little more color what are the initial thoughts, right? Where would be kind of the savings in CapEx coming from? And this is -- is this just a delaying of the CapEx, as you were saying with volume recovery probably 2027. So if you could give us a little bit more detail, that would be very helpful.

Ian Craig- CEO

It's exactly that, Alex. So let me give you an example. And it's mostly in Mexico but it's in a couple of other countries where volumes weren't as high as we expected, for example, Guatemala. Let me give you the example of Mexico. We were putting in a couple of new lines, 3 new CDs. The lines are going ahead as planned but the distribution centers, for example, we've taken the land site but we're not going ahead with the construction. Because the worst thing that we can do is if we're going to have a low to mid-single digits volume decline next year due to the tax is to put in 3 new distribution centers and have those distribution centers be unproductive. You just get the extra depreciation, labor cost and you don't need it if our volumes are going to be facing that

contraction from the tax. So it's really pushing out Mexico 2 years out. That's basically it.

Operator

Next question from Lucas Ferreira with JPMorgan.

Lucas Ferreira- JPMorgan Chase & Co

Ian, first of all, a follow-up on your comment now. You mentioned low single digits decline in Mexico. Was this just sort of to illustrate or this is the number you are working with for Mexico next year? That wasn't exactly my question. My follow-up on the tax story. If -- well, first of all, the transition towards that around 30% reduction in the calories for the sugary drinks, how fast you guys are thinking on getting there? And if you think there could be any sort of impact on the flavor, on the consumer adoption, anything like this you can comment on sort of the risk of going towards that 30% reduction? And then the other question I have is, if this adjustments towards a sort of a new more leaner structure for Mexico right now, if it's -- how far we are from getting there? So you mentioned the CapEx. Is there anything else to be done still on the expenses side, cost side that you can help us understand to better model Mexico next year?

And if I may, a second point is on Brazil, another clarification. If you look at your operations, let's say, in regions outside Rio Grande do Sul with the ramp-up of the plants, how the business is working? I mean you mentioned market share gains. Is this like sort of a better go-to-market strategies? Or is there anything related to pricing there, execution? So just to understand a bit how the operations, let's say, excluding the effect of the ramp-up of Rio Grande do Sul is going, if you're seeing sort of a bad weather, consumer dynamics? I'm asking because we see a lot of other consumer companies complaining right about the consumption in Brazil kind of slowing down. So wondering if you also noticed this happening in Brazil.

Ian Craig- CEO

So let me -- there were several points there, Lucas and I'll ask Jorge to help me on some of those. But just in general, in Mexico, the big thing was, like we mentioned, starting May, downsizing to what needed to be done in terms of our operational structure. And there is some remaining adjustment there to be done in terms of productivity in line with the volume impact that we expect from the tax increase. You have to -- when you look at the 2026 numbers, you have to normalize internally what the effect was of the backlash. So the effect of the increase in the tax per se is a little worse but it gets masked or it doesn't look as large because we don't no longer have the backlash that we left after the first -- that we also ended around May of last year.

So that's sort of taking all of those effects into account, that's why we were saying low to mid-single digits is what we expect. And there's a lot of uncertainty on that. So we have to see what the impact is in the first quarter to see if we have to do further adjustments and what depth of adjustments. We do have a shock plan in terms of savings in all sorts of instances of that. And it's a large plan to go and accompany this tough tax -- excise tax impact. In terms of how we move consumers gradually to low or noncaloric options, that -- it's something that we'll do with our promotional grill -- grid with adjustments to some of our formulas, always taking care to make sure that we are the best choice out there and giving the consumers choice. We don't expect in that sense, really material savings from sweeteners or such. That is not the case. We don't expect that. And we have to be very respectful to consumer space and what they want and how the mix evolves naturally. We can't be too forceful on that. It's just something that we need to be working and it will be gradual.

Going back into Brazil, in Brazil, we do see consumption softening. We have the advantage of a really tough base last year with the closure of the plant. So when we normalize what's going on there, that's why we mentioned the type of share gains that we're getting outside of the Southern region. And that's really what has been the differential for us. That's what's been driving our growth there. It's really share gains because you're right, we do see softer consumption. That being said, remember that next year, we're going into an election cycle in Brazil.

So I don't think, at least for the remaining of the year and 2026 that we expect anything other -- you know that, still a resilient Brazil. I think the big risk in Brazil is more relating to 2027. We have mentioned that. At that point in time, the selective tax on soft drinks should be coming into effect. And also, there may be as historically has been the case in certain elections, a post-election hangover, for example, like what we saw in Mexico. So I would say, Brazil, we see a softer consumer but it's not a contraction for us and we are not worried of 2026. We have to keep an eye out though on 2027.

I don't know, Jorge, if there's anything you'd like to complement.

Jorge Collazo- Director of Investor Relations

Perhaps the only thing I would add, Lucas, the first part of your question, you referred to Ian's comment on volume outlook for next year. So of course, this is a very preliminary early take. Now we have to put everything into consideration. We have to think about the implications, of course, of the excise tax. So this is, I would say, like a very early preliminary take on that, where we expect volumes to decline in the low to mid-single digits range -- for Mexico, of course, yes.

Operator

Next question from Benjamin Theurer with Barclays.

Benjamin Theurer- Barclays Bank PLC.

Just coming back to that point on the volume outlook. And obviously, you tend to have a lot of flexibility as it relates to like packaging mix and trying to offset and help profitability. So I would like to understand, in first place, what has been driving over the last couple of quarters, actually in Mexico but to a degree as well in Central America in contrast to South America transactions being somewhat even weaker than volume. So kind of like that relationship would like to dig into that. And as we look into next year, the way to offset maybe some of that with different packaging or trying to drive transactions, what strategies can you implement to kind of like boost the transactions at least into next year, even if volume might be under pressure, as you've just said, low to mid-single digits?

Ian Marcel Craig García- CEO

Well, I'll let Jorge dive into the details on that, Ben. But I would say the main point is whenever you see a more challenging economic environment or disposable income for consumers and things get tight, usually single-serve mix suffers and you move into multi-serve. And within multi-serve, you move into multi-serve returnables. And that's just a natural mathematical result of looking for lower price per liter, okay? And that correlates a lot with transactions. So that's the main directional point. What we do then is, focus a lot on the magic price points. And if you take that -- I mean, I think transaction, like you said, is important. But really the biggest, biggest thing is maintaining our volume base and our household penetration. So for us, the main focus that we have now in Mexico, when we look at our relative competitive position, the biggest gap is in traditional channel, refillables and that's what we are addressing.

And what we're addressing that is with the 1.25 liter glass at the MXN 20 price points, which competes with Pepsi 1.75 liter and 2-liter Red Cola at that same price point. So we didn't have anything there. And now we're having the 1.25 liter glass there and that's a very big and important price point. It also drives transactions when you look at multi-serve per se. And then upsizing our 2.5 liters [indiscernible] PET to 3 liters and that's around the MXN 33, MXN 34 price point, which competes with 3 liters [one way] of Pepsi and Red Cola.

So obviously, we have a very good brand that commands a brand equity lead and that allows us to be able to inconvenience our consumers with a returnable presentation that they have to carry to and from the point of sale but that really is the way that we're able to have that revenue management initiative there. That's our big focus per se. You see all of the transaction growth, for example, the biggest example is Argentina, will recover naturally with single-serve mix as the economy improves. So I would say the biggest and

most important question for us with the excise tax increase looming is maintaining our household penetration and volume base really more than the transactions.

Benjamin Theurer- Barclays Bank PLC

And real quick on pricing. I mean, obviously, you need to pass through the tax. Are you planning to anticipate some of the pricing already in the fourth quarter to kind of like get the consumer kind of like used to a new price point because of that? Or are you simply just going to wait and do the regular pricing as we move into next year, coupled with the tax as it might have to be applied?

Ian Craig- CEO

The base plan basically is maybe at the very end of the curve but it's really preparing and passing through the excise tax that will commence in January. It's how -- there are certain time that you have to give, especially the modern trade to process that change in the pricing lists. So it's basically going to be that. It's the pass-through of the excise tax, getting ready by giving the modern channel enough time to have that ready to start in January.

Operator

Next question from Ulises Argote with Santander.

Ulises Argote Bolio- Santander Investment Securities Inc.

Sorry, I was having some technical issues here. This is kind of a follow-up question that I had on the pricing side of the equation. But given those changes in taxes and the differentiation there between sugar and nonsugar products, we wanted to get some color on how you're thinking about the price gaps on the 2 kind of going forward, right? Any color there on how you're thinking on the strategy? And maybe if there's any major shift there happening on pricing on one versus the other, that would be really helpful.

Ian Craig- CEO

Well, one of the things that we've committed to is to incentivize a move towards noncalorics. And in that sense, be it through differentials in baseline prices on the aisle or through a more intense promotional grid or both, a combination of both, we expect in the end to have that sort of differential above the size of the tax between those 2 to try to incentivize a move on -- in the mix. That being said, like I said, we are very respectful of being pro choice, offering the consumers what they want and we'll always have the full original formulas and the zero-calorie formulas and we'll let the consumer choose. It's just how do we nudge them with either increased promotional grids or different baseline prices, okay? We do expect, in the end, a lower effective price by either of those 2 measures.

Ulises Argote Bolio- Santander Investment Securities Inc.

Okay. No, that's super clear. Yes. And maybe a quick follow-up, if I may, just looking there a little bit on the capital structure side of things. I mean net debt-to-EBITDA is below 0.8x. Obviously, you've made those comments on lowering the CapEx. You don't have any major debt commitments in the short term. So how should we think about the capital allocation priorities kind of for the next couple of years?

Gerardo Cruz- CFO

Ulises, as we've been talking to the market throughout the past few quarters, we certainly are aware of our inefficient capital structure and are looking to address it. In 2026, obviously, with the excise tax coming to play, we will put -- evaluate how we start the year and what implications it has. As Ian mentioned in regarding our previous question, this results in a delay of a couple of years to cycle the impact of the tax in Mexico, which in turn will have some impact in our cash flow projections for the year. So we'll evaluate that further and let you know of any news during -- starting next year.

Operator

Next question from Thiago Bortoluci with Goldman Sachs.

Thiago Bortoluci- Goldman Sachs Group

I have also 2, right. And those are follow-ups in Mexico. The first one and I think this is for Ian. Just to understand, Ian, how you see your company position versus the state of the consumers, right? If I can summarize what we saw in the quarter, you obviously declined volumes a little bit more than apparently where the industry is, while you keep pricing growing with inflation but decelerating the pace versus the first 6 months of the year, right? In your comments, you alluded to the need of promotional activity to keep demand somehow healthy.

But going forward and imagining that macro shouldn't improve that much in the near term, at least, how you think about the fit of your pricing on a like-for-like basis versus the demand sentiment that you're getting from consumers? So how you're seeing your average price list and effective pricing to accommodate the current situation? I think this is the first question. And then the second one related to this topic but now on the excise tax, to the extent that you can comment, how much and, or how at all would the new rate fit in your discussions with Coca-Cola Corporation for the concentrate prices going forward?

Ian Craig- CEO

Thank you, Thiago. Let me put things into perspective. Remember that this year, January started strong. And then in February, we had the backlash, which we exited by the end

of May, June. So Mexico is a very big country, not as big as Brazil or the U.S. but it's a very big country and it has different economic performance in different regions, by the remittances impact and different depth in the backlash that we face was different along the regions, mostly impacting our region, which is where most migrants have family members in the U.S. So I think when you look at and break that -- break out that effect, you see our share, if you look at our monthly chart, taking a big hit in February and then recovering month over month over month. Well, today, if you look at September, for example, the point data in share of value versus September of last year, in flavors, stills, fruit drinks, teas, water, energy, sports drinks, ARTDs, we're above last year. So we had a value and we're above last year.

In colas, we still have about 0.6 points to recover. And that has -- is really what explains the increased promotional grid. And really, the point that we have missing is, like I said, traditional trade multi-serve refillables. That's the share point that we have left. And with the latest adjustments that we've done, eventually, we're hoping or thinking that we should get to cover that gap and we'll be above last year and having cycled everything. So I would caution that we are doing well versus the industry. But like I said, we took a big impact that other competitors didn't take in February, right, Thiago? So you have to normalize with that. So we took that impact but we're every month getting back to where we need to be. And we're back in every single segment and only missing 0.6 points in colas still.

So that's the context. I think your question is very pertinent going forward because when you have a region that is with soft macros and now we have a large excise tax increase, obviously, our pricing power, we believe, is going to be limited. So we're not expecting anything above inflation because our customers, it's also a big impact for customers and consumers are going to be dealing with that excise tax. So to assume that we're going to have real pricing above that, I don't think is very realistic. It's already going to be a lot for customers and consumers to digest just with the excise tax impact, okay? Does that help?

Thiago Bortoluci- Goldman Sachs Group.

It certainly does. Anything you could share on the relation between Coke under the new excise tax?

Ian Craig- CEO

Yes. Well, the way our model works, like I said is, we look at how the system profits behave and then divide those profits. Obviously, when you have an impact such as a tax, well, it's going to have an impact in our profitability and that's taken into account in the model. So it remains to be seen because you have to look at both companies' relative performance on what that trickles to and whether it's some sort of support or cost

avoidance. We don't have enough visibility on that yet. But what I can say is that, that is included as well as when we do very well, that's also included in the model. So yes, that effect will be captured but it's too early to tell -- to see if there's going to be really an impact for us on that. It's -- we don't know yet. We'll have to see in the first quarter how customers and consumers deal with this excise tax pass-through.

Operator

Next question from Rodrigo Alcantara with UBS.

Rodrigo Alcantara- UBS Investment Bank

As a means of just staying a bit out of the tax discussion, I would like to explore on some interesting commentary we heard a couple of days ago in [indiscernible] conference call regarding their dairy category, right? They already mentioning the Coke system already a market share leader in terms of value, right? Volumes growing 13% in the third quarter, right? So my question would be here how this figures or how this category is shaping for you guys specifically, right? And what is really driving this good performance and the relevance of overall the Santa Clara brand for -- and the dairy category for you guys? That would be one question.

And the other one very quickly, I mean, unfortunately, right, we saw what's happening in Costa Rica, Veracruz, right? In addition to that, weather is not improving and macro is still weak, right? So any preliminary read on Mexico volumes ahead of the fourth quarter? And kind of like a similar question would say to, to Brazil, right, where you somehow mentioned about the share gain momentum, et cetera but also some commentary on volumes on the 4Q would be also very, very helpful. Those would be my 2 questions.

Gerardo Celaya- CFO

Rodrigo, thank you very much for your question. I'll start with the dairy question. And indeed, Coke mentioned that we're now leaders in value-added dairy, which is great news. This is the main focus for us with Santa Clara. As you know, this is a great brand, a brand that we're very proud of that has grown amazingly when it was brought into the system. This year, as you mentioned, dairy has been an outperformer for us in the still business. Stills business growing at a rate of 20% for the year, year-to-date. So this is great growth, especially when you look at it in the context of macro weakness overall.

So we expect dairy to continue to be an outperformer. This is something that we're very excited about and that we can leverage the brand, the umbrella of the brand of Santa Clara to bring innovation and do all sorts of interesting things in this space. So that's good news for us. In terms of our fourth quarter, we -- I think a good thing that we are seeing is, we see patterns of improvement in weather that certainly we expect to continue to help. And we expect to see a little bit of an uptrend in volume performance for the

remainder of the year as compared to what we've seen in the year-to-date. This is Mexico.

Jorge Collazo- Director of Investor Relations

Yes. This is Jorge. On the comments about the fourth quarter and weather as well expectations for Brazil, I think something that we certainly saw in the early weeks of October in parts of the South Cone and especially Brazil was a little bit of unfavorable weather. That seems also, as Jerry mentioned, it seems that it's going finally to end. It seems that weather is finally improving. Throughout the third quarter in Brazil, we saw about 1 degree Celsius on average below the previous year. But I think the good part is that it, that seems to be out of the road for us. And you mentioned about the unfortunate events also going back to Mexico, in Veracruz.

That's definitely very -- as Ian mentioned during the prepared remarks, we are working hand-in-hand with FEMSA and with the Coca-Cola Company on several community support relief efforts. Specifically for the business, we have taken into consideration also support to our teams on the ground. I wouldn't say that the region represents a big material part of the big Coca-Cola FEMSA Mexico volumes. So we think in terms of -- if you are asking about a specific impact about that, you can think maybe around 350,000 unit cases over the first 8 days of the disaster there. So not material. And as I said, I think the most important part is that we're working on community and support relief efforts there.

Ian Craig- CEO

Yes. This difference to last year -- year before last, where we had either lost a plant or equipment, in this case, our infrastructure was not impacted other than a couple of vehicles and routes but not really large infrastructure. Our clients, however, were very impacted. So we have around 1,600, 2,000 clients that we're sensing to see if our coolers still work, if they got damaged, we'll replace them. And we did have, unfortunately, for us, for the first time, some loss of life in our collaborators' families. So that was the worst part. And obviously, we're supporting our collaborators that were impacted in these unfortunate floods.

Operator

Next question from Renata Cabral with Citi.

Renata Cabral- Citigroup Inc.

I have 2 quick follow-ups here. The first one on Mexico. You are discussing right now about the weather that's going better. And it's possible to try to have an evaluation on how much of the current performance, I mean, from the year is more related to weather and/or the economic situation. I know it's super difficult to make the assumptions but a

best guess. Or if you also could give some color of the performance per month, so we can try to make here some correlations related to the weather, it would be really helpful. And another follow-up is related to Argentina because we saw an improvement for the company in terms of volumes and margins, I mean, compared to last year, naturally. So for now on, we know that stability is great but at the same time, we are seeing also a slowdown in terms of overall consumption in Argentina. So the outlook for -- to conserve the current improvement or even continue to improve in the country.

Gerardo Cruz- CFO

Thank you, Renata, for your question. I'll start with weather patterns in Mexico. I think in this third quarter, weather was less -- significantly less relevant as a comp effect versus last year. Even though we didn't have good weather, it wasn't consumption promoting weather, we had bad weather during the third quarter of last year as well. So when you see weather compared to this same period last year, it seems to be less of a factor. What has been playing out to be an important impact for consumption certainly has been overall macro development.

I think for the first time this quarter, we saw the whole Nielsen basket underperforming or decreasing altogether. We had in previous moments seen consumption in certain industries underperforming versus others. But this quarter, we did see an outright underperformance in all consumption products. So I mean, macro has been, I think, the main driver of underperformance during the third quarter. Looking a little bit forward, I think we do see a little bit of better macro performance next year, although nothing exciting but certainly a marginal improvement from the base that we have in 2025.

Ian Craig- CEO

Moving to Argentina, Renata, I think there -- it's very clear that things have started to slow down especially since the Buenos Aires province election. And remember, we have very important legislative elections this weekend. So consumption really took a -- slowed down going into this election. What we're seeing from our advisers in Argentina is there's a lot riding on the outcome of this weekend's legislative elections in the sense of whether the government's position, how much will it be strengthened and will they be able to avoid logjams in the legislative branch regarding reforms.

So Argentina, I would say, let's wait and see what happens this weekend and that will give us a guide. That doesn't mean we expect a recession next year. That's not in the cards, at least from what our advisers tell us but there could be a case of sluggish growth next year instead of continuous recovery. So that's really what we're going to look at. Will it be a scenario of sluggish growth next year, or will we continue and reaccelerate as the government has a more favorable position that will allow it to push through

reforms? So it's a bit early to tell, Renata. But like I said, we think this slowdown has a lot to do with the elections this weekend and we'll see what happens.

Operator

Next question from Antonio Hernandez with Actinver.

Antonio Hernandez- Actinver Casa de Bolsa

This is Antonio. Just following up on those beverages sweetened with noncaloric sweeteners. I mean you've already mentioned a couple of times during the call that there's not going to be a specific push from you towards the consumer. But just wanted to get a sense if you have a type of a target going forward of maybe how much they can represent as a percentage of total sales? And also, how do you see competition specifically in that segment?

Ian Craig -CEO

Antonio, we don't have a specific target per se. But like I said, even before the excise tax, to us, Coke Zero is a big, big silver bullet. It's great for the health of the category. It does fantastic for the Coca-Cola trademark brand umbrella. And we were already focused on growing Coke Zero and this type of alternatives. So when you think of what we've been able to do in Brazil, where we've taken the mix of Coke Zero all the way to 28% and it's still growing high double digits. There's plenty, plenty of headroom in Mexico. We don't have a target yet but we're around [4%] mix in Mexico. So there's plenty to grow our Coke Zero and other noncaloric alternatives, Sprite Zero, so another fantastic product. So I don't have a -- we don't have a target per se, Antonio. But that more or less gives you a sense of the difference on the market that has already developed Coke Zero getting to 28 percentage points versus a market where we're starting to crack the code such as in Mexico, where we're around 4%. So there's plenty of headroom there.

Antonio Hernandez- Actinver Casa de Bolsa

Okay. And in terms of competition in that space?

Ian Craig- CEO

I would say we have a leadership position there. It's not that much that will come out of share gains there. Really, it's more a portion of growing the mix and growing the total category. We -- there are some share gains opportunities there but that's not the big driver at all.

Operator

Next question from Felipe Ucros with Scotiabank.

Felipe Ucros Nunez- Scotiabank Global Banking and Markets

Most of my questions were asked, but I had a few smaller ones. So Ian, you talked about Coke Zero in recent quarters and you talked about being able to break the code finally in Mexico. So just wondering how your perception has changed, if at all, since obviously, there's an expectation that it's going to accelerate from the trend that it already had. Still feeling very confident about cracking that code? And the other 2 questions. One, on the World Cup, what kind of historical impacts have you guys seen in the portfolio when the World Cup is going on? And obviously, the occasions increase. Just to get a sense of what we expect for 2026 when it comes to KOF. And then in Brazil, obviously, your plant is back up and running and back up at capacity. Wanted to see if you could give us a sense of where the competition stands with regards to their capacity in that region. Are they also back up and running? Or did they not have disruptions? Just any color you can give us on that side would be great.

Ian Craig- CEO

Thank you, Felipe. So I would say on Coke Zero, we're very confident that we're on the right track. I think the biggest measure of that was that during the consumer backlash in the beginning of the year, Coke Zero grew double digits and continued to grow double digits. And it's even under this softer macro environment, it's still growing double digits. So Coke Zero is doing nicely. It's going to get a boost also from the World Cup. It's going to be a hero product there. It's going to be highlighted in all of our publicity and marketing campaigns. So I think our confidence on Coke Zero and our care towards making sure we keep that ball rolling and we keep all of the 5 elements from the Brazil playbook that we call for Coke Zero being there is a huge source of focus. Like I said, we think of Coke Zero as a silver bullet for us and we're taking great care with that.

Regarding the World Cup, it really -- when you look at historical effects, I think it's like a 5% uplift in volumes -- relative volumes during the World Cup months. It's not a big volume thing per se but it's huge in terms of brand equity. I was there in Brazil during the World Cup and I remember clearly that the most recalled and remembered favorable brand post the World Cup was Coca-Cola. It's an incredible asset and we're going to leverage it fully for both Coke brand, including Coke Zero and for Powerade. And finally, your final point on Brazil capacity in the South, I would say that during the floods, only Coca-Cola FEMSA was impacted. So we were the only ones to lose a production facility, which was also our biggest distribution center. So that's why we lost 8 points of share, Felipe.

It was only a Coke FEMSA impact thing. We're back on track, like I said, since midyear. So we're producing at full capacity now and we've recovered 500 basis points of those 800 basis points that we lost. Obviously, the last remaining points of share are going to

be the hardest but we have plans to recover them fully. So no, the rest of the competitors did not receive the impact. And we're starting also on the way -- by the way, on the remediation plan, meaning the containment walls and pumps to be ready to face any future natural disaster. So that has -- we're back on track producing. We are not yet finished with the remediation to face a future flood and that should be done by next year.

Felipe Ucros Nunez- Scotiabank Global Banking and Markets

No, great color on that. If I can do a very small follow-up on that World Cup. When you talked about the low single digit -- low to mid-single-digit volume decline expectation in Mexico due to the tax, is that purely containing the effect of the tax? Or is that net of everything else that you have going on? So for example, is the World Cup impact included in that number [indiscernible]?

Ian Craig- CEO

It's net of everything else. Just the tax, it's a higher impact. But we are cycling a backlash that we no longer have and we're including the World Cup. So that includes everything.

Operator

Thank you. This concludes the question-and-answer section. I would now like to hand the floor back to Coca-Cola's team for closing remarks.

Jorge Collazo- Director of Investor Relations

Thank you very much for your interest in Coca-Cola FEMSA and for joining us on today's call. As always, we are available to answer any of your remaining questions. Thank you and we wish you a great weekend.

Operator

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