



Financial Risks in the Beverage Industry

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This problem situation was written by Aleida Gonzalez Cueto Longres (aleida.glezcueto@tec.mx), with the purpose of serving as discussion material in classrooms, it is not intended to illustrate good or bad management practices. The story on this document is based on different people's experiences; some data has been modified at the request of the people and institutions involved.

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The Company

Arca Continental, S.A.B. de C.V. is a bottler that produces and distributes beverages and snacks and fundamentally depends on key raw materials from the food and packaging sectors, as can be seen in its profile:

- Beverages: It uses inputs such as sugar, concentrates, sweeteners, water, CO₂, and packaging (PET plastics, aluminum, cardboard) (NYSE, 2025).
- Snacks (brand Bokados, etc.): Mainly corn, salt, oils, and packaging.

The most critical raw materials that impact its operating costs are sugar, concentrates (flavoring ingredients), packaging materials (such as PET and aluminum), and corn.

Arca Continental, S.A.B. de C.V. operates in Mexico, Peru, Ecuador, Argentina, and the United States, serving more than 128 million consumers (Arca Continental, 2023).

Image. Arca Continental is one of the largest bottlers for The Coca-Cola Company worldwide.



Source. Kaboompics.com in Pexels, 2020.

In 2023, its consolidated net sales exceeded 213.632 billion pesos, with an EBITDA of 42.382 billion pesos (a margin of 19.8%) (Arca Continental, 2025b).

In the first quarter of 2024, it reported an EBITDA of 9.663 billion pesos, a margin of 19.0%, with a drop in the cost of sales supported by favorable hedging in the exchange rate and inputs (Arca Continental, 2025a).

Commodities related to operation

Sugar is a critical input in sweetened beverages. Its price is highly exposed to volatility due to climatic, regulatory, and global supply-demand factors. The market reference is the ICE Sugar No. 11 contract (SB), quoted in cents of a dollar per pound. In 2023, the average price was USD 21.6 ¢/lb, a 30% increase compared to 2022, which pressured Arca Continental's costs by 18%. In 2025, the international price reached 25.4 ¢/lb, its highest level in more than a decade (Arca Continental, 2025a).

Table. ARCA's commodity inputs.

Commodity / Input	Application in Arca Continental
Sugar / Sweeteners	Main components of beverages.
Concentrates (flavorings)	Base ingredients for the production of beverages.
Water and CO ₂	Essential elements in soda production.
Packaging (PET plastic, aluminum, cardboard)	Containers for beverages and snacks.
Corn, oil, salt	Ingredients for the production of snacks.

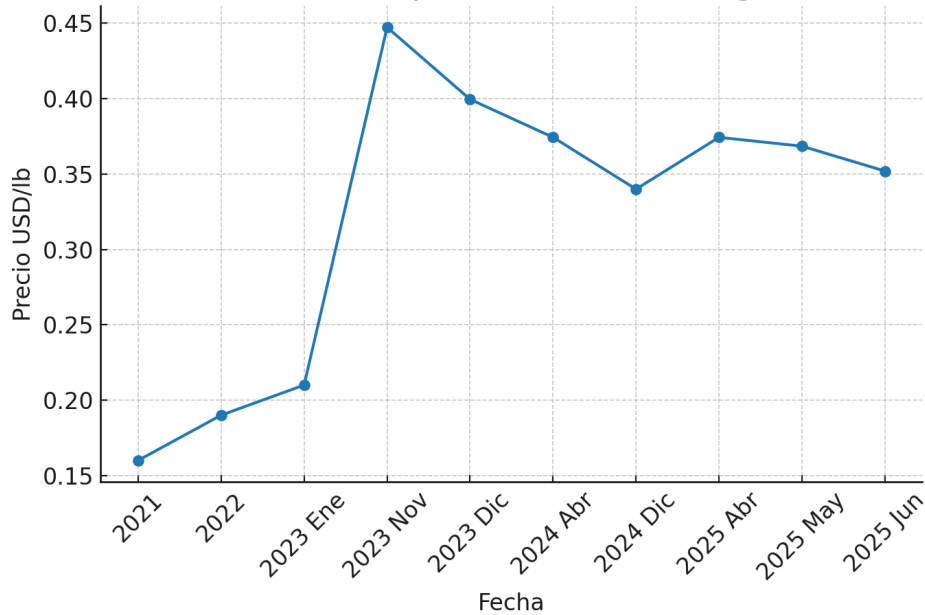
Source. Own elaboration, based on information from company reports, 2025.

Financial Situation

According to recent results, Arca Continental has shown resilience in the face of cost pressures derived from the volatility of raw materials, particularly sugar, by relying on hedges and negotiations with suppliers. The following data provide an overview of its evolution in volumes, margins, and profits:

- Historical volume: In 2023, it reached a record of more than 2.4 billion unit cases (MUC) sold, and an EBITDA growth of 7% compared to 2022 (a margin of 19.8%) (Arca Continental, 2025b).
- 1Q 2024: Net sales of 50.743 billion pesos (growth of 0.1%), EBITDA of 9.663 billion pesos, and a margin of 19.0% (↑ 20 bps). Reduction of 1.8% in cost of sales, driven by favorable hedges (Arca Continental, 2025a).
- During 2023, Arca reported net sales of 213.632 billion pesos and an EBITDA of 42.382 billion pesos. In the first quarter of 2024, sales were 50.743 billion pesos and EBITDA was 9.663 billion pesos, with a margin of 19%. The 1.8% reduction in cost of sales was attributed to hedging strategies and negotiations with suppliers. These measures have partially mitigated the pressures from the rising cost of sugar and exchange rate volatility (Arca Continental, 2025a).

Image. Historical Evolution of Sugar Price (Sugar No. 11 ICE).



Source. YCharts, 2025.

Historical Hedging Strategies

Arca Continental uses financial derivatives (swaps, forwards, and other instruments) to hedge exposure to inputs and currency, which operates with the support of the Financial Risk Committee and is framed within ISDA agreements (Arca Continental, 2023).

Recently, it implemented the Bloomberg MARS Hedge Accounting platform, which reduced the time to prepare hedge accounting from 160 to just 30 hours per quarter. This reflects a clear intention to professionalize and streamline its controls over financial risk. Fitch Ratings highlighted in 2025 that the company maintains an effective hedging plan along with pricing strategies, consolidating a solid financial position:

- **Mitigation Strategies:** Explicit mention of “strategic hedging strategies and negotiations with suppliers” as key levers to cushion against cost pressures and exchange rate fluctuations (Investing.com, 2025).
- **Fitch Rating:** In June 2025, Fitch highlighted that Arca Continental has implemented an effective hedging plan, along with pricing initiatives, as part of its favorable credit rating assessment (“A”) (Fitch Ratings, 2025).

By 2025, the international price of raw sugar exceeded USD 25.4 ¢/lb, its highest in more than a decade. This represents a significant risk to Arca Continental’s margins in sweetened beverages since sugar input can represent around 20% of the cost of sales, as is the case for ARCA Linley Peru (Arca Continental, 2024).

Therefore, it has been decided to hire a specialized consultant to design a hedging strategy with derivatives that guarantees the target price of USD 20 ¢/lb through a combination of futures, swaps, and options, based on costs, valuation, effectiveness, and price scenarios.

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