Q3 2014 Earnings Call

Company Participants

- João Mauricio Giffoni de Castro Neves
- Nelson José Jamel

Other Participants

- Alan Alanis
- Andrea F. Teixeira
- Antonio González
- Carlos Laboy
- Fernando F. Ferreira
- Gabriel Lima
- Jose J. Yordan
- Luca Cipiccia
- Thiago Duarte

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's Third Quarter 2014 Results Conference Call. Today with us we have Mr. João Castro Neves, CEO for Ambev; and Mr. Nelson Jamel, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the company's presentation. After Ambev's remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the belief and assumptions of Ambev's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ambev and could cause results to differ materially from those expressed in such forward-looking statements.

I would also like to remind everyone that as usual, the percentage changes that will be discussed during today's call are both organic and normalized in nature; and unless otherwise stated, percentage changes referred to comparisons with Q3 2013 results. Normalized figures refer to the performance measures before special items, which are either income or expenses and do not occur regularly as part of Ambev's normal activities. As normalized figures are non-GAAP measures, the company discloses the consolidated profit, EPS, EBIT and EBITDA on a fully reported basis in the earnings release.

Now I'll turn the conference over to Mr. Nelson Jamel, CFO and Investor Relations Officer. Mr. Jamel, you may begin your conference.

Nelson José Jamel {BIO 16334129 <GO>}

Thank you, Gary. Good afternoon, and welcome to our 2014 Third Quarter Earnings Call. I'll begin by sharing a few performance highlights. João will then give us some color of what went on in Brazil during the quarter and what to expect moving forward, and I'll come back to give an overview of our international divisions and financial performance before moving to Q&A. So let's get started.

In the third quarter, net revenues were up 6% and EBITDA grew 2.5%, reaching R$4.1 billion with normalized EBITDA margin contract 160 basis points to 47.5%, mainly due to a tough comp driven by one-time gain related to the positive outcome of certain legal proceedings recorded in the third quarter of 2013, as well as the result of a gross margin contraction of 70 (sic) [50] (03:03) basis points to 65.7% and a double-digit cash SG&A growth.

Year-to-date our net sales are up 10.6%, while our EBITDA increased 7.2% (sic) [7.3%] (03:14). Looking at our divisional performance. Brazil net revenues grew 1.4% and EBITDA decreased 5% with an EBITDA margin of 50.4% in the period. In the first nine months our top line grew 10.7% and our EBITDA 5.3%.

Latin America South had a strong performance this quarter with a 22% increase in net revenues, with EBITDA rising 28% and EBITDA margin expand 220 basis points to 44.2%. Year-to-date, net revenues are up 17.4% (sic) [17.5%] (03:48) and EBITDA 19.4%.

Canada net sales declined by 0.3% and EBITDA was up 2.2%. EBITDA margin expanded 100 basis points. From January to September, our net sales were down 0.5% while our EBITDA declined 2.1%.

And HILA-Ex delivered 10.6% of net revenue growth, R$181.9 million of EBITDA and EBITDA margin of 37.1%. Year-to-date, our net revenues are up 13% there and our EBITDA, 20.9%.

João, over to you.

João Mauricio Giffoni de Castro Neves

Thanks, Nelson, and good afternoon, everyone. After delivering double-digit top line and EBITDA growth in Brazil the first half of the year, we have just reported a softer result in the third quarter, primarily driven by a negative performance in Brazil Beer. So I'd like to start talking about first, the strategy we designed for Brazil 2014. Second, how we actually read this quarter's performance, and third what we expect going forward.

So first, how did we plan for 2014? We started this year with a strategy in Brazil to build momentum through: number one, growing our top line in 2014 in a solid way looking this time for a better balance between price and volume; as (05:14) since 2012 when the industry faced a significant tax increase beer inflation has been running at double-digits that along with an increase in overall inflation had been putting some pressure on volumes.

In this context, affordability became an important priority for us in 2014, through different initiatives such as the summer without price increase and expansion of our pack price strategy.

Two, through the acceleration of the investments behind our brands leveraging as well as much as we could on the 2014 FIFA World Cup platform to support not just this year but also future growth. We came with a robust sales and marketing plan, mainly focused on enhancing the equity of our mainstream and premium brands allowing us to keep leading the growth in both segments; executing specific plans at target geographies, where we see bigger volume in market share opportunities; expanding consumer occasion through packaging and liquid innovation, improving the consumer experience through investments in point-of-sale in our franchises. This is the plan and it was not designed by chance.

To put in perspective, we have grown our top line in the last three years, mainly thanks to the pricing lever protecting our profitability in a scenario of not only rising federal taxes, but also affects the valuation and other headwinds, while at the same time investing behind our key commercial platforms.

In 2014 we decided was the perfect time to take advantage of the positive industry momentum, including the FIFA World Cup event to take the most out of it to fuel our top-line growth, pursuing an optimal balance between volume and net sales per hectoliter, and aiming at price to consumer back to general inflation levels.

So we get to the second point of my initial list, how do you read this quarter's performance, and how does it fit with our strategy? After growing our top-line by 15.3% in the first half of the year, we already expected deceleration in the third quarter. Beer and soft drinks industry volume were indeed negative, primarily backed by a further deceleration of real income growth that was almost flat this quarter, the continuous increase of general inflation and a lower consumer confidence.

As a result, despite top line still growing double digits year-to-date, our net revenues grew only 2.3% and EBITDA in Beer Brazil was down 5%, mainly driven by a decline in Brazil Beer EBITDA, partially offset by a strong performance of soft drinks and non-alcoholic non-carbonated.

We're definitely not satisfied with this quarter results, but we never plan for one specific quarter. We are indeed sticking to our plan and despite the poor financial performance results for Beer Brazil during this quarter, we're very confident it's working. So why do I say that?

Number one, we had another quarter of strong market share growth. We have been outgrowing the industry during the full year, gaining 150 basis points of market share since the first quarter and reached an average of 69% in the third quarter; more important we did that by maintaining the relative prices to our competitors.

Number two, beer inflation continued to trend down towards general inflation, the summer without price increase in the World Cup without price increase campaigns have been successful, driven a deceleration of beer inflation from the double-digit levels since the end of 2012 to a single-digit level in Q3. Our unique pack price platform remains a key strategy in this scenario. 300 ml returnable glass bottle has grown steadily, but really remains underpenetrated in Brazil with significant room to expand.

Particular emphasis will continue to be given to our pack price strategy in order to improve our top-line performance by delivering to consumers more affordable products. Beer inflation acceleration was also enabled by the government decision to postpone the expected tax increase for this year. Along with that and even more important, the sector continues to dialogue with the tax authorities we think that they (09:38) of showing once again that tax revenue can grow the same way, but based on a lower tax burden on the industry enabling a greater volume growth and further investments with no pressure on inflation.

Number three, we have significantly improved the connection with our consumers this year. While continuously growing our market share, consumer preference remain above this level reflecting the strong equity of our brands and healthy growth prospects. Brahma is definitely a big highlight as the official sponsor of the 2014 FIFA World Cup. Its preference is up 120 basis point year-to-date, maintain a strong performance after the event.

We have also significantly enhanced the consumer experience in the out-of-home occasion, invest in new coolers in point-of-sale and by further expanding our franchises, like (10:29) that is present not only in São Paulo, but now also Rio de Janeiro, (10:35) just to name a few.

While also improving the experience in the in-home occasion, we have just launched in connection with Whirlpool, the first below zero beer cooler designed for house consumption. Now our consumers are able to have a perfect experience with the brands they buy now through Imported Asset Iglesia (10:57), our website with just one click. Imported Asset Iglesia (11:01) revenues grew more than 150% this year.

Number four, we continue to lead the fast-growing premium segment in Brazil. Our premium brands have grown more than 20% year-to-date, mainly driven by double-digits growth of Budweiser, Stella Artois and Original year-to-date. Budweiser is now the leading brand in the international premium segment, while Original continues to lead the domestic market. Further enhance our high-end portfolio, we will launch Corona this quarter in the fourth quarter on selected on-premise accounts.

Number five, in the last years we have launched breakthrough innovations that continue to outperform the market. Brahma 0.0 more than doubled the non-alcoholic beer segment in Brazil in the 18 months since its launch and has now more than 65% of market share within this segment.

Following the successful rollout of Skol Beats Extreme, we have just launched Skol Beats Senses, an innovative ready-to-drink liquid with 8% alcohol content that can be mixed with ice, different than anything we have ever launched. Our pipeline of innovation remained strong and will definitely play an even more important role in our top-line growth strategy.

And finally number six, our CSD & NANC portfolio continues to outperform the industry. After reaching an all-time high of 19.3% market share in the second quarter, we lost only 10 basis points sequentially outperforming the industry by 80 basis points year-over-year. This performance was primarily driven by Pepsi and Guaraná Antarctica through our returnable glass bottle strategy. But all of our brands actually gained share.

We have also launched the Fusion 1 liter PET bottle further enhancing our presence and share in the fast-growing energy drink segment.

With that in mind, we get to our third topic, what do we expect going forward. As I already mentioned, we are anything but satisfied with this quarter results, but do not see the third quarter results as an indicator of a future like performance, much the other way. So when referring to our guidance, we are not making any change. We expect to deliver on both our top line and cost guidance for the year in Brazil by reaccelerating net revenue growth and improving our SG&A performance in the fourth quarter 2014. As important as the next quarter, we firmly believe we are now even better positioned to face the challenge that lie ahead of us, not only the fourth quarter, but also in 2015 onwards.

With that I would like to quickly run through the performance highlights of our Brazil business.

During the quarter beer volumes grew 0.2% as our market share gains more than offset the industry decline, and we saw the first sequential increase 3% in our net revenue per hectoliter as we left the intensified promotional environment of the FIFA World Cup behind.

Net revenue per hectoliter grew 1.2% growth versus last year impacted by the earlier timing of our revenue management initiatives in the third quarter of 2013, resulting in top-line growth of 1.4% in the spirits.

In terms of cost and expense, as cost per hectoliter grew 10.8% as our industrial depreciation was up 22.7% reflected increase in investments in Brazil in recent years. Our cash COGS grew 8.5%, driven by negative currency hedge impact and a remaining but smaller negative impact from packaging mix related to the 2014 FIFA World Cup, which was partially offset by the benefit from our commodities hedge impact.

In terms of expenses, cash SG&A in the quarter was 15.9% higher than third quarter as a result of: one, double-digit sales and marketing growth driven by strong investments behind our mainstream and premium brands, acceleration of innovations, and remaining 2014 FIFA World Cup related expenses; second, increased weight of direct distribution; and third, a tough comparable base as our SG&A was down low single-digits in third quarter 2013.

Other operating income was down 3.2% as the higher government incentives were fully offset by tough comparable base due to a one-time gain in third quarter 2013 related to a legal claim. As a result, our EBITDA in Beer Brazil was down 10.1% with an EBITDA margin of 48.2%.

Turning to Brazil soft drinks. Overall, we had a strong performance in the third quarter with 20.3% EBITDA growth and EBITDA margin expanding 690 basis points to 60.8%. We continue to outperform the industry, increasing our market share gain by 80 basis points year over year, and averaging 19.2% in the quarter. Our non-alcoholic, non-carbonated segment continued to grow, partially offsetting the CSD industry decline, leading us to a negative 2.1% volume growth. Net revenue per hectoliter grew a solid 9.1% driven by our revenue management strategy. We ended the quarter with 6.8% top-line growth.

As for cost and expenses, COGS per hectoliter grew 0.3% driven by unfavorable currency hedges offsetting by lower commodity costs mainly sugar and PET and better mix. SG&A was up 1.7% as higher logistic expenses driven by increased weight of our own distribution were almost totally offset by lower sales and marketing expense.

Before turning back to Nelson, I would like to wrap up with somewhat of a final message. As you know, I'm moving to a new challenge now with ABI starting January 1 next year. It's really been six amazing years at this position working together with an amazing team. Each year, a different year, a different challenge, a different lesson learned.

In order to deliver better results year-after-year besides leading our Dream, People, Culture platform, we had to be quick to adapt to the changing environment and I believe this ability has made a difference and also became another of our biggest strengths and would not have been possible without our great people. Thank you, guys, for this amazing journey.

During this period a lot has been done, but there's still a lot to be done. As part of our culture, we're always looking for better – for people that are better than ourselves. So I'm fully confident Bernardo will deliver even more than that. Bernardo is listening to us from the U.S. Bernardo, welcome and all the best, partner.

With that said, we still have the most important quarter of the year ahead of us. I'm fully committed that everyone at Ambev to deliver another strong finish and great result at year-end. And who knows? Maybe Nelson and Bernardo, invite me for final messages as a special guest on the first quarter earnings result.

Guys, we have a strong plan, big opportunities to capture. Let's go for it. Thank you. Nelson, over to you.

Nelson José Jamel {BIO 16334129 <GO>}

Thank you, João, and I'll now walk you through the main outlook for (18:12) international operations. Starting with HILA-Ex, our EBITDA grew 28% to R$182 million with 500 basis points of margin expansion to 37.1%. In Dominican Republic, we continue to expand EBITDA margins while growing our top-line through volume growth and revenue management initiatives.

Through the quarter, we also got ready for the Festival Presidente, one of the biggest music festival in the Caribbean held during the first weekend of October and further consolidating Presidente as a leading brand in the region.

In Guatemala, our performance further improved in the quarter mainly driven by market share gains helped by Corona and other Mexican brands. Latin America South, EBITDA grew strong 28.5% with 220 basis points of EBITDA margin expansion. This performance is most explained by top-line growing 22% as a result of a 2.3% volume growth and 19.3% net revenue per hectoliter growth. Volumes are positive in most of the countries you operate, including Argentina where volumes grew, managed by favorable weather and our pack price initiatives. Our innovations continue to grow ahead of the markets, with an important contribution of Quilmes Night.

As far as cost and expenses, cost per hectoliter in LAS grew 10.1%, mostly impacted by high labor-related costs, whereas cash SG&A increased by 15.7%, mainly as a result of higher distribution expenses in Argentina, given inflationary pressures.

Overall, we are pleased with our performance in Latin America South in the quarter, but remain cautious about the Argentinean macroeconomic scenario. Industry volumes remain volatile, but we'll continue to execute according to our strategy, pursuing a solid top-line growth, while protecting our profitability through our cost management initiatives.

Turning now to Canada. We had our strongest quarter for the year in Q3, driven by continued market share momentum and net revenue per hectoliter growth as a result of our revenue management strategy. Reported volumes in the third quarter grew 5%

benefiting from the Modelo brands. Organically, volumes declined 1.1% in line with the industry, impacted by the poor weather and by an acceleration of energy and food inflation, which pressured consumer disposable income.

Our innovations (20:28) in liquids, packaging and trade solutions continue to support our top line, delivering approximately one full share point of growth versus prior year. Continuing on our success for the first half, in the third quarter we launched our new 25-ounce Biggie Cans and released a new seasonal for the Shock Top family. Our net revenue per hectoliter grew 0.9% as our revenue management initiative started to positively impact our results, while SG&A savings were achieved in the third quarter as we leveraged our cost discipline to partially offset a tougher than expected beer industry. As a result, our normalized EBITDA grew 2.2%.

As the clear market share leader in Canada, we continue to focus on supporting the overall health of the category, bring innovations to consumers, and new trade solutions to our customers, and managing our net revenue to offset rise in import costs without putting undue pressure on industry volumes.

Now, I would like to cover the main items below the bar (21:28). Our normalized profits increased by 23.2% to R$2.9 billion in the quarter. Net finance results were a negative R$221 million and (21:38) last year, mainly driven by better performance from all derivative instruments.

The effective tax rate reached 11.7%, thanks mainly to a high interest on capital benefit during the quarter. And last but not the least, in terms of financial discipline, we continue to deliver a strong performance. We have generated during the quarter R$4.1 billion of cash from operations, which brought the year-to-date figure to R$9.8 billion, an 8% increase versus the same period last year as a result of both our strong operational performance as well as better working capital management.

Finally, given these solid financial metrics, and maximizes the return to our shareholders. On October 15 we announced a dividend distribution totaling R$3.4 billion will be paid as from November 13. Year-to-date, we have already announced that close to R$12 billion in cash payout, a 67% increase over the same period of last year, and already our biggest cash payout in any given year.

Gary, can you please remind new folks the procedure for Q&A?

Q&A

Operator

We will now begin the question-and-answer session. And our first question comes from Fernando Ferreira with Merrill Lynch. Please go ahead.

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Thank you. Thanks for taking my question. First question on your Brazil guidance for revenues and SG&A, I mean, the question here is how concerned are you with the ability to put pricing amidst this weak consumer environment and also the need to reduce SG&A during Q4? That's the first question.

A - João Mauricio Giffoni de Castro Neves

Hi, Fernando. This is João. I think as we said, we are very confident about this change from, let's say, a more price lever than a volume lever. So we really want to get to this balance. So I think the main priority this year was to find our way back to affordability, right? I mean, we used the price lever for more intensively than the volume one for three years – after two years of volume and what you're trying to balance, and that's what you see on the year-to-date, and that's what we are working on for the year. And that's exactly to face what is that, let's say weaker consumer environment.

If we continue to be able to bring beer inflation down to more general inflation levels, I actually think we'll be in a very good place because I mean, even after three years of intense price increase given the tax volumes for the greater majority remain stable or growing, I think if we bring that price down as we're doing this year and hope to continue to do so, the sort of revenue managing initiatives that may happen will allow us to reach our guidance, as we said, in a more balanced manner and actually I think prepare us for the 2015. So I think we're doing everything to land, let's say, the plane on the right place. We're doing so and actually by landing where we want it and we're doing what we plan to do, I think we start off 2015 in a very good place.

Regarding the SG&A, Jamel.

A - Nelson José Jamel {BIO 16334129 <GO>}

Yeah. Regarding SG&A, the same way – of course, we have a plan. We had intensified some of the marketing and sales invest of course around the World Cup, but we are fully confident that we will be able to deliver on our guidance, especially considering SG&A is something totally under our control, right? So I would say that we are ready to deliver on it, and we clearly – restated that guidance so both on top line, as well as on costs for 2014.

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Sure, that makes sense. And then on your dividend payout, I mean, we heard on the ABI call, right? The targets for the capital structure for the group and for Ambev. But on the dividend subject, does it make sense for us to start assuming that the dividend payouts may be above 100% going forward?

A - Nelson José Jamel {BIO 16334129 <GO>}

Yeah. The way we look into our payouts – I mean, better said, I mean, the way the rationale, right, to address the cash flow generation we have, I mean, has always been first, to reinvest in the business, right? I think we think we have plenty of organic growth opportunities in our (26:25) that are very attractive returns. Of course, we always look in some more organic growth opportunities for our business. I think the best has happened here recently is the CND deal in the Dominican Republic.

But then, of course, with the strong generation we have, we have been increasing our payouts and we don't have a specific target to follow a percentage of profits like maybe you have implied in your question. But once we have this strong cash flow, naturally we also have to maximize the value to shareholders and the payouts have been consistently growing, don't see a reason for that to change.

Operator

The next question comes from Antonio González with Credit Suisse. Please go ahead.

Q - Antonio González

Hi. Good morning, João and Jamel. Thank you for taking my question. I had two quick questions. First, going back to the consumer weakness that you made reference in the prepared remarks and in the previous question, I wanted to see if you can give us a little bit more color of how do you feel with respect to the rollouts of the new brands that you're launching in Brazil – Corona and Skol Beats Senses? I wanted to see your big picture thoughts.

Obviously, this is probably for the very long term, both how concerned are you that you're running out kind of high end brands in the middle of a weak consumer environment? And I wanted to see if you can give us a little bit of a sense of what is happening across channels? Specifically in the on-premise channel, are you seeing where I would presume the launch of these brands would be particularly intense? Are you seeing more of a weakness than in the rest of the channels?

And then just finally, João, congratulations obviously on your new role. I just wanted to see if you can you share with us any comments on what the big mandates you think will be for Bernardo upon his (28:21) arrival if you have – to look in hindsight (28:24), what do you think were the cornerstones that were achieved in the last six years? And what are still the important areas of opportunity? Thank you so much.

A - João Mauricio Giffoni de Castro Neves

Okay, great. Thanks for the question. I think a lot to mention. I think starting more from the overall background. Of course, consumers are somewhat more selective, right, whether high end, whether mainstream, whether value. But we're still looking for the brands that they prefer, right? I mean, we have the brands. I think the good thing is that the bets we made in the past two years enable us now to play in an intense way and leading, whether that is in the high value, in the premium segment, right, in the mainstream or with pack price in all the brands we have, even in the value (29:14). So I mean, I think we have a much wider and stronger portfolio today than we had five years or six years ago to either enjoy, let's say, a tailwind or face a headwind.

I think the way to look at that in the short term is the continued share gain every quarter this year, the fact that preference continues to go up and much above the market share. But to face – again, but to face the consumer environment, whether it is this quarter, this year or next year, if we cannot do it at the right price, then we'll be missing part of the equation, right. So we have to do it with the pack price for the ones that are looking more at the right price.

We have to be able to give the more premium brands when they want. And Budweiser, it's a huge brand compared to what we launched just 2.5 years ago and a lot more to do. So I think sometimes we can't forget I think the launch of (30:11) and the launch of Skol Beats Senses and Skol Beats Extreme, and actually other things that we have in store for next year, we're building up the future. So we built options around Budweiser. We built options around Stella. We built options around Original that are now we're seeing growing 20% or more, for example. And how – we're going to build options with Corona, we'll build options with Senses and Extreme.

And I think another great example of our ability to become better marketers and better at reading consumers' desire is the launch of Brahma 0.0. So Brahma 0.0, a premium priced product that actually doubled the size of the segment in a little bit more than a year, and actually went from nothing to 65% market share in a very quick period. So it was not just about (30:57) our execution lever. So I think we'll continue to give a lot of emphasis on our ability to really have a great execution at the point-of-sale, but really becoming better at what we're calling our growth driven platforms that's reading better consumers and get to them what they want.

And I think that certainly helps us and that's why we believe that even in a more challenging environment, again as I said, headwinds or tailwinds, we have the right commercial platforms from a sales perspective, from a marketing perspective, which are now calling let's say more commercial oriented will pave the way for this top-line growth.

We, I think, have been working very diligently on the different strategy for the channel, right. So I think we have also raised the bar a lot in off-trade execution in the past 12 months to 18 months, and I think the World Cup was a great opportunity to sort of show off that, and if you call (31:53) that we can take that to the other, we did that a lot on the key accounts.

We have up the game also in the one through four checkouts, and we're just bringing now carton to the marketplace, so next time you come to Brazil, I mean, if you go to Rio or São Paulo, you're going to see something very different, which also I think once again Ambev stepping up the game, learning from what consumers want, learning from what we're doing well in other markets, so we can do that better.

For the on-trade, I think the franchise has been a great way for us, initially to pilot going from 0 to 500, 600 plus in São Paulo, and now it's starting to roll out across the country, which makes the on-trade environment a better place to be. The on-trade, the bar continues to be the living room of the Brazilian family, so we need to continue to have that place as a great place to go, a great place to be. We hope we can increase that to the thousands. I think we learn a lot in the last two years or three years how to do that, how to enhance, continue to enhance, and fast enough the rollout of this.

So feel very good in terms of where we're standing brand-wise, commercial-wise, as well as from the channel, and that's it. I think we have – there's a lot of challenge, but he's probably the right guy, the right time and the right place, great partner. As we said in the speech, someone better than myself that can take to the next level with a lot of strong commercial background, will place the right emphasis in the right bets, defending the base, and pursuing the right strategy (33:23). I think the opportunities are the ones that I just mentioned. I think we will continue building a stronger base, but placing the right basket (33:32) in the right things. We believe in the same things, different styles in the sense – different people have different styles, but we do believe in the same court. I don't think he'll take to next level without getting too much details and not giving too much to the competition.

Q - Antonio González

Thank you so much.

A - João Mauricio Giffoni de Castro Neves

My pleasure.

Operator

The next question comes from Alan Alanis with UBS. Please go ahead.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you so much. Before bringing my two questions, I just want to put a bit things in context. I mean, João, I mean, since you became CEO, I think that the outperformance of the Ambev shares have been massive. I mean, I'm running my numbers here correctly. Basically, it's been seven times outperformance, almost like 250% return on the stock on Ambev during that period. And on top of that, Ambev has paid almost $40 billion of dividends, so congratulations. I mean, really, really wish you the best when you move here to New York and take over the North American operations of ABI.

Regarding the questions that I have – basically two. One of them is regarding this idea of the fourth quarter EBITDA in order to reach guidance. Again, if I'm doing the numbers correct, you need to deliver around 12% to 18% EBITDA growth in the fourth quarter to reach the SG&A and COGS guidance on Brazil Beer.

The question that I have specifically is what levers are you going to use to reach that end, if you could explain how come we're seeing a 20% increase in super premium beer and only 5% in the total volumes, yet we're not seeing any kind of margin expansion year-to-date.

In order words, are we going to see in the fourth quarter – is there something going on with the way you pay the licenses to ABI during the fourth quarter that it's embedded in that SG&A that we might see a deep decline in the fourth quarter that might help on that boost of the SG&A? That's my first question, and then I have a quick follow-up on CapEx.

A - João Mauricio Giffoni de Castro Neves

Well, Alan, I mean, it's very true question. We're very confident, I mean – I'm just restating the guidance. It will be a combination of different things. I mean, license at the Brazilian level – they are basically non-existent. I mean, it's between nothing and very little so that too, but not been explanation for anything. I think there are different phasings of – in terms of SG&A investment and Jamel can give you a little bit more color. But at the end what we tried to mention very strongly, which I know it's sometimes hard to understand, we made a different plan for 2014, right?

I mean, to change things you cannot do things in the same manner, right? So we actually – I said it also in the early part of my speech that I think the last four years or five years, we were very quickly to react when we thought it was the right thing to do so for changing environment, right? Sometimes that meant spending more in certain markets, and sometimes that mean was reducing SG&A strongly. This year we are sticking to the plan, right. We did the plan that we think is working, despite this poor performance of the third quarter that looked like mix – hard to look at the quarter in details.

But, at the end, I think, first, there are the different phasing of the revenue management initiatives, right? There will be – therefore a different component between price and volume for the net revenue that we feel good about it. Given the different phases for the different projects for the year, in terms of share, in terms of balance, in terms of ramps, in terms of premium, in terms of innovation, we'll make the SG&A work and Jamel can give you al little bit more details.

But we look at the combination of the plan for the year, what happened in the third and what's going to happen in the fourth, the combination of price and volume, plus our very good hand on the SG&A despite the fact of strong investments behind our commercial initiatives for the year, we feel very good about the fourth quarter and with the idea of building momentum into 2015.

A - Nelson José Jamel {BIO 16334129 <GO>}

Hi, Alan. Nelson here. Just to build on what João just said, I think in terms of the guidance we referred to, first of all, we don't have exactly a guidance on EBITDA. We have a guidance on different items, right, (38:04) P&Ls. We're starting with the top line, which we said at the beginning of the year should grow from high single to low double. And then we have reinforced or reiterated just now that we expect to get the upper end of this range right. So in the end of the day we are saying that the low double, actually it's already a reality, right. As a reference, our year-to-date net revenue, it has grown 11%. And more important, we always said, I mean, this should be achieved in a balanced way.

So again, if you look at our 11% growth, a 6.1% a result of volume growth and almost 5% as a result of net revenue per hectoliter. So this is the most balanced top-line growth we have had in many years. So what we just said, we should see more of this in Q4, so that the full-year guidance then is delivered, as we just said, which in a way implied that we're going to have a strong acceleration of top line versus what we just published in Q2 – in Q3, sorry.

And what João just said, I mean, different phasing of revenue management initiatives, volume of course, there still is (39:16) a little bit given that the tailwinds of the first semester (39:18) so that in a way in Q3. So a little bit of some moving pieces, but I think the ultimate message is this, it's going to be a low double balance.

Now that's the first guidance. When you go to the second, it's about cost per hectoliter, it's already happening, right. I mean, I've seen there was kind of a – it's about the mid-single digits, right? I mean, that constant mix question (39:41), in Q2 especially. And now in Q3 a little bit above the full-year guidance, but that's because the mix, not mix is definitely not an issue. I've seen this across the third quarter. There was still remaining back of the World Cup at the beginning of the quarter, but that's not the case anymore as we speak. So should see also cost (39:58) Q4 vis-à-vis Q3, and definitely Q2.

SG&A is kind of expected, right, because we have huge increase in concentration, in Q2 and Q3, it should also get better. So it's what I got. It's a different line and when you combine them all, we're just saying we're going to have a stronger top line and a better performance in SG&A.

Also not to miss the – take the opportunity of the question. Important to remember in Q4, we're going to face a tough call vis-à-vis Q4 2013 when it has an important gain, a one-time gain in connection with the pension plan that we have here at Ambev. So with all that together, we are more than confident you're going to deliver on our full year guidance and that's how we should see Q4 and the year-end how it's going to look like.

Q - Alan Alanis {BIO 15998010 <GO>}

That's very useful. So I mean, just – well, implicit on my question also is, I guess more clearly with this massive growth in the super premium, should we assume that the premiumization movement in Brazil will not necessarily bring margin expansion? That would be one question.

And my last question, just to wrap it up on my side is, year-to-date your CapEx is up 36% versus last year. You're around R$3.2 billion and last year you were around R$2.4 billion. If we assume that you're going to maintain a similar level of CapEx than last year, that means your CapEx is going to be slashed by less than half for the fourth quarter of this year versus the fourth quarter of last year. Is this the case?

And if you maintain the level of CapEx that you have on a full-year basis, you're going to still be on a level of CapEx that's around 10% of sales. What explains this high level of CapEx at basically 2.5 times the level of depreciation when, to the rest of my understanding you're not doing anymore capacity expansion and your capacity utilization is around 61%? So if you can explain a bit more of where the CapEx is so? Thank you.

A - João Mauricio Giffoni de Castro Neves

Sure, Alan. Well, thanks again for the question and thanks for the initial comments. For us, I mean, premium products they mean premium contribution margin, okay. We said a few years back that we thought that we would move premium mix within our total mix from let's say 4% to 5% to 8% to 10%, okay. So we continued that journey. So we'll continue getting close to the 8 probably around 7%, 7.5% for the quarter. So that's good, right. They will always come enhancing margins rather than diluting so premium price means premium margins. Don't get that wrong.

Q - Alan Alanis {BIO 15998010 <GO>}

Okay.

A - João Mauricio Giffoni de Castro Neves

It's important. But again I think it's very important that we're not – here is the end rather than the or (42:54). We continue to have a strong strategy for premiumization, but we're also elevating the core, right, of Skol, Brahma, and Antarctica, right, (43:05) experience better. Skol Beats Senses, Skol Beats (43:09) Brahma 0.0, that's what we're enhancing, the (43:12) FIFA World Cup was about that, so we're also not forgetting we're elevating that core. And we have the pack price, right, to the affordability issue, for the value issue (43:21) that's all. We want to make sure we have the right portfolio for all occasions, and also as we did in the past, building the options for the future.

Regarding CapEx, I think, this is a little bit related to that, too. We've started from 2009 maybe all the way to 2012, I would say 80% plus of CapEx were really related to supply, right? And from 2012 onwards, you start to see some CapEx diminishing from a mix standpoint from supply to commercial, right. You have seen how much we have enhanced direct distribution. So we have enhanced that significantly. That usually brings share opportunity, sometimes depending on the region that can bring additional level of execution.

The distribution-ship that we have, the (44:18) continue to be stronger and the one that remaining the excellent, one social (44:22). You have commercial CapEx for that. You have commercial CapEx for new coolers that we also mentioned in additional speech. You mentioned the on-premise activation franchises. So there's a different mix.

Remember that you all the very strict rules of CapEx, they will be always with a very important IRR, okay, so very interesting returns. So I think when someone asks about the cash flow to Jamel, we're always looking for the right returns. So another return now that is between commercial and supply is carton that we're now having for all the mix in Rio, for a good part of the mix in São Paulo. That's another new investment that we have, so all of them, very attractive IRR, first.

Second, as we said, cash back to shareholders. And at the end, we've been able to have a higher CapEx than we had in the past, with a much higher cash flow generation. So I think a good place to be in, a good problem to have. Okay? That's pretty much it.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you so much. And again, congratulations.

A - João Mauricio Giffoni de Castro Neves

Thank you, Alan.

Operator

The next question comes from Thiago Duarte with BTG. Please go ahead.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thanks for taking the question and good afternoon, everybody. My question is I think I have to go back to the guidance for top-line growth in Brazil. Just trying to get maybe a better sense of where you think the rebound in the sales growth might come in the fourth quarter. I mean, you grew 10.7% so far in Brazil this year.

In the third quarter, you grew 2.3%. So you're really – what you're trying to say, you're really trying to say that there's going to be a rebound in the fourth quarter, so I'm really trying to get a sense where it's coming from. I mean is it prices? Is it – you think that the industry performance is going to go back to positive territory after a negative performance in Q3? You think there's more market share in the Q4? So really trying to get a sense of its price, mix, industry growth, so that would be the first question.

A - Nelson José Jamel {BIO 16334129 <GO>}

Okay, Thiago, I think as we just talked, I mean, there – our expectations for future accelerate top line in Q4, right, I mean, we talked about a balanced objective more than the double-digit growth, we said we're going to be at a more balanced level. So if you look in it today, today we are more – we have the close to 11% top-line growth. I'd say it's up 60%, almost 70% (46:55) coming from volume; of course 40% or so coming from price. This should be probably more balanced towards year-end. And that's how we expect more of a pricing contribution and not volume contribution in Q4, especially because most of the tailwinds on volume, they are behind us, right. I mean, the World Cup primarily, even if a very high market share we have, we are at the upper limit of our historical market share range.

So that put us in a better position to implement our revenue management initiatives, and of course, then the timing is an important impact. I mean, when you look it through Q3, refer to the low single-digit growth in net revenue per hectoliter, but it has to do with the timing as a result of the price increases we're taking earlier, that kicked in earlier last year, these are now coming later. And again, being at the start of (47:52) market share we are – with the rent portfolio, commercial execution, we feel very comfortable to deliver on the guidance in Q4, again, more on pricing than volumes because that would be the natural trend for the quarter.

Q - Thiago Duarte {BIO 16541921 <GO>}

Perfect, that's helpful. And the second quarter would be just actually more in a qualitative way, what read and what your thoughts are on that over 60% EBITDA margin in the soft drinks division in Brazil? I think it's the all-time high, I would say, and just wanting to hear a little bit more from you what you guys see going forward for that division. I think it's more to invest and gain market share, you think that you can put more pricing, just what sense you make on such a strong margin in that division? Thank you.

A - Nelson José Jamel {BIO 16334129 <GO>}

I think in terms of CSD margin in Q2, actually the full results were exceptional, right. I mean had a strong top-line growth, costs, and SG&A. And then we always have to watch out a little bit when we talk about margin on a quarterly basis, because of some phasings of expense so clear this was the case in soft drinks, we had a different phase of our commercial investments, especially in terms of sales and marketing that brought SG&A to a much lower level in the quarter. So I think the best feature to look at in terms of the financial performance of the division is to look at the year-to-date numbers, right.

And I think the underlying trends, the real business underlying trends, first of all, we continue to gain market share consistently in this business to the execution of what I think are winning commercial initiatives. So when we see the third quarter results, cost per hectoliter grew below average and that has an important contribution of a better mix. So we continued to deliver and performed strongly on our returnables. And this time around, both – with Guaraná Antarctica, as well as with Pepsi, Pepsi Liter is a great success, it's adding a lot to the brand. We continue to execute strongly in our non-alcoholic and non-carbonated division as well, especially with energy drinks. We achieved the second position in the (50:06) in October is the Fusion 1 liter launch. So a lot of good news, and I think that's the trend you should continue to see in the business.

And again, regarding margins, of course, we've got to pick this quarter because of some phasings on cost and especially on SG&A. But it's a high margin business, mainly because of poor performance in Brazil, and we continue to see very positive trends in this business.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you.

Operator

Next question comes from Andrea Teixeira with J.P. Morgan. Please go ahead.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Hi. Thank you. Thanks for taking my question and, well, congrats to both. I just want to be brief here on more exploring on the year-on-year like comparison in the revenue per hectoliter, and some of the changes that packaging has been inflicted also by the customers. I mean, we understand that there's a lot of growth in more in cans as you grow into the North Sea. Is that a way – I mean, as you said and I appreciate all your comments about like how you have been balancing more price in volumes. But if you can help us understand, given the tough comp on the revenue per hectoliter and the things that you have already did in the fourth quarter of last year, how can you – kind of what settles effect (51:10) and get us comfortable with the fact that you'll be able to reignite sales and basically in volumes and pricing? Thank you. In beer revenue, sorry?

A - João Mauricio Giffoni de Castro Neves

Okay, thanks for the question, Andrea. I think first, some points of your question, I think just to get one point straight, I mean, no significant to none mix impact this quarter when we look at the price, okay. For the others (51:59) competitive reasons, we don't comment about the timing or specifics of the price initiatives or revenue management issues in the short term. So we always prefer to refer to the full-year guidance, which calls again, I mean, we know we said that but high single to those level, we have reiterated that we expect to reach the upper end of this range.

Regarding the balance, I mean, I think the balance make sense, and it takes a little bit of time and that's why it's a little bit bumpy because in the same way that from 2011 to 2013, we had sometimes, especially in 2012, some surprise in terms of federal tax increase that they could be negative in the last few years, surprise me – sometimes more to the positive angle. That had reflect in some prices increase that maybe were not originally thought. And when that happens sometimes there are greater price increase at the consumer level. Sometimes then you have the retail level.

When you want to bring it down, you want to have as little as price movement scattered then concentrated. So we rather have concentrated. You regain some of that. You have a lot of knowledge on how to do that and that helps to bring it down, right? By bringing it down, you tackle the affordability and you get to the better balance. We think that the biggest effort of that has been done, okay?

So now we have to look into the fourth quarter with the phasing of the revenue management initiative that we mentioned. The reference is net revenues so far grew 11.7%, volumes higher at 6.1%, then the net revenue per hectoliter at 4.7%. That balance will change slightly or somewhat for the fourth quarter so that we reach the desired balance for the year, which again as I was trying to convey in the beginning, the way we wanted, right, in this year more volumes than prices to consumer, not just to the retailer coming down so that by coming down you can start off 2015 whatever the macro condition is with a much better situation, one that we have not seen again for almost four years.

So I think if we can finish the year in that manner, the way we want, the way we're going to end, we're going to start with the beer inflation closer to general inflation that we haven't had for a while, and I think this will help a lot the potential headwinds that we may have from the macro standpoint.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Thanks, João. And if I may ask about Canada. Canada we should be seeing a better margin outlook. I know it's part of the whole overall guidance but not only in the quarter but as you cycle a better comparison for – as you rolled out the premium beer in Corona, you expect that to be diluted going forward?

A - Nelson José Jamel {BIO 16334129 <GO>}

Hi. Nelson here. I think Canada is – as we expected, by the way, I mean, it's joined – it's a great momentum in terms of top line as well. Of course, we started with Corona only late

March, so we are currently in a ramp-up situation, but more important than the improvement we've got in this quarter, we bought the 5% year-over-year volume growth, we think the brand has a huge potential. Not only it's a 2 – actually a 2.5% market share brand today, but (55:20) of the brand is much higher than this, and moreover in terms of execution, road to market we saw a lot of gaps since we got the brand and we think that it's still a long way to go and we are very confident we're going to benefit from this important addition to our portfolio for quite some time still.

I think that's the number one message about Canada, specifically top line in Canada. We have also improved (55:47) the initial investment, also improved the SG&A performance, and we should see more of this not only in Q4 but as we get into 2015, especially with the – all the rest we are doing in terms of the innovation (56:01) continue to invest in the (56:02) behind the focused brands, but also innovate in terms of liquids, new (56:07), new trade solution – trade program (56:11) solutions, so we continue to be very confident about the improvements in results in Canada.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Thank you, Jamel, and thanks again for both, João, and welcome back, Denham (56:24).

Operator

The next question comes from Jose Yordan with Deutsche Bank. Please go ahead.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Hi. Good afternoon. João, I just wanted to quickly echo what was said before. I feel like at the end of an era and we're really going to miss you here. My question is really, I mean, I got all the previous comments about the timing of the price increase, et cetera. Just curious as to how this plays into the current tax increase talks. Can this happen independently, or will it happen independently of the tax increase? Because obviously it's been postponed by a little more than a year now, the government, there's not going to be a transition in the government. So they, in theory, should be more prone to move quicker on this issue, especially given the deficit numbers that are continuing to come out, et cetera.

So how is this going to play into the government's perceived need for more funds quickly? And their ability to do so since they don't have to – there's no transition in the administration, et cetera. How should we look into this as it relates to your revenue management initiatives that are going in the fourth quarter?

A - João Mauricio Giffoni de Castro Neves

Okay, Jose. Well, thank you for the nice words, and I'm excited to deliver a strong finish for the year as you can imagine. Regarding tax I think that is the one component to talk about for a little bit, just to give some color. We have not changed. Our, let's say pricing strategy that we always said, prices in line with the inflation plus taxes, whatever impact. I think the last few years we've been able by developing a strong relationship whether federal or state governments, to show the impact, to show that there are – many times a better balance also from tax collections and investment in jobs. That has helped us at the federal level, but also at the state level.

So I mean, the government already said, they will not increase their reference base for this year, which is the time you mentioned, recognizing. But I think more important that that, they not just said that, but they said that the current system is there's a revision to be performed with the sector, towards a new tax framework in Brazil for good (58:50) beverages in general, right? That's beer, soft drinks, and other beverages.

This announcement followed the one in which the government already indicated that any potential tax increase would be eventually implemented in a gradual way. But at this point, there's no confirmation of what it is, will it be gradual, how gradual, and so forth and so on.

I think at the end, I mean, we of course welcomed the decisions. We see them as an opportunity to enhance the current model, keeping some of the key elements, as for example the (59:18) quality control system, while at the same time improving predictability and redefining it so that tax revenues can continue to grow, but based on a lower tax burden on the industry, enabling a greater volume growth and further investment, with no pricing inflation.

So what we continue to work towards is this also balanced with the government. If we can get there, great, then not just we'll have built a great commercial platform and great commercial momentum, but then finding the switchboard (59:47) with the government that we think it can be a win-win. So it's very hard to say anything beyond that. I think just the fact that we've been able to have these discussions and having this (59:58) by the technicians, by the government, by everybody show that we're at the table. We will work very hard to find a solution as soon as we can. And if it is towards that balance, I think this will help even further.

If it's not, then we will continue to reiterate the pricing policy. And once again, we have built not just commercial momentum, but also competitive-wise, where I think we have also good momentum given the share, given the preference, given the results that we saw that were published, I think that puts enough pressure on everybody to continue to find the right place to go.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Great. And a totally unrelated question, given that you were one of the early fans of Labatts, et cetera, almost I guess 10 years ago now, back then obviously, the company didn't own Anheuser-Busch, et cetera. But do you think in your new role, that you're going to dedicate some time to revisiting whether Labatt should be under Ambev, or should it revert back to the North American zone, given the overlaps in – obviously in brand, et cetera, right? Is that something that might be on the table, or is it just a non-starter?

A - João Mauricio Giffoni de Castro Neves

I think that – I mean, of course, that I think that you, let's say somewhat easy, straight comments. So it's one, I'm not yet in the position to say anything about where I'll go in my new role, I think just generally speaking. I think second, I think regardless of the ownership structure, I think we've always been able to, let's say, defend any priority from Ambev, from just looking at the (01:01:45), so that I know there very well.

I think second, the way it is structured is in a way that is always better for the business. So we're always understanding the commercial pressures, understanding the commercial opportunities again whether headwinds or tailwinds, and have been doing what's best for the consumer. Because 100% of the time whatever is (01:02:10) – whatever is ready for the consumer and also, of course, talks to our profitability and our strategy.

So I think we've been always been able to find the right answer in Canada, whether this is with Ambev own brands or with Anheuser-Busch own brands. That for sure will continue to be in place regardless of who's here, Jerome (01:02:30), Bernardo, we'll always defend the Ambev's interest, but at the same time, we will also defend what's best for the consumer and for the business, and that's the part that I can guarantee to you it will continue to be there.

Q - Jose J. Yordan {BIO 1496398 <GO>}

All right. Great. Best of luck.

A - João Mauricio Giffoni de Castro Neves

Thank you very much, Jose. We'll miss here too.

Operator

The next question comes from Luce – pardon me if I mispronounce this, Cipiccia from Goldman Sachs. Please go ahead.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Good afternoon. Thanks for taking my question and, João, best wishes for the new role. I have two quick questions. One is on SG&A more for next year, I understand you may not want to give any type of guidance yet, but clearly you're coming out of two years of heavier investments with very strong market share, both on the SG&A and the CapEx front we saw some big deployments. So when we think about next year, I would like to understand, I hope you could put into frame, how much of a tailwind do you see coming from the workup in terms of having to sustain the brand franchise? And how much flexibility could that give you to look at SG&A reduction quite aggressively from the more variable component? So that would be the first question.

And the second, a follow-up on the taxes. You commented that the relative pricing hasn't changed. Some of your competitors have referred quite clearly continued price competition even after the workup. So, even if we were to assume the same approach for taxes that was used the last time when the reference table was first announced in April, would anything have changed in terms of the impact for your brands or in terms of your relative pricing when you look at competitors? Because clearly at the time, it was quite evident that the price increase for some of your brands would have been relatively high, so just curious if we can look at it that way, even if nothing had to change from the existing framework? Thank You.

A - João Mauricio Giffoni de Castro Neves

Okay, Luca. Let me take the second piece and then Jamel can give you a little bit more color on the first part. I think, what we just want to make clear when we said seen relative – same relative price is because of some of the comments that were not there that – and they could be misinterpreted, right, so we all read the results. We all see some of the tough spots, so I just want to make sure, there's no aggressiveness, right? There was promotion, there was building brands, there was building momentum, and the same price relatively. So great execution, by the commercial team, whether in sales or whether in marketing, and that was done by that great work that the team did, so all – any numbers would show that.

I cannot get into too much details of the reference price, they would cut them, they were getting too much to (01:05:33) internal data, but I think it was very important for us to get out there and say, look, guys, better share momentum, better brand momentum at the sort of same price relative that we always have, always look for. Brands of our competitors discount to ours on the average between 20% to 25%, that's still in place depending on the compactor (01:05:55), okay, so, the momentum was earned the hard way, execution, brands, commercial plans, pleasing consumers, clients, and all that.

To the SG&A, I think we will have a good momentum, but I'll let Jamel give you the details.

A - Nelson José Jamel {BIO 16334129 <GO>}

Sure. Well, about the SG&A, in particular about 2015, of course we think it's too early to talk about the details, right? I mean, we still have the most important quarter of the year still ahead of us. We're not going to provide any specific guidance on 2015 at this stage, but we will have the chance to share, share it in more details early next year, but at the time we will be announcing 2014 full year results, (01:06:32) special guest that he asked it in the beginning of the call.

But no doubt, I mean, when we think of 2016, we just mentioned, right? I mean, the same way the World Cup is going to be seen as a hard comp volume-wide. It's going to be an easy comp SG&A wise, for instance. But I would say, besides the easy comp we might get at the SG&A side, I think it's very important to emphasize that (01:06:55) cost management continue to be at our core like that has (01:06:58) helped us considerably in the past years, not only to protect our profitability, but again, to drive EBITDA margin growth. And we are in a momentum that we think is more than ever time to use the zero-based pricing tools, go back to basics. I think it's going to be especially helpful in a year or especially within the year when we saw some deceleration in the industry, I mean, you know there have been fear navigating tailwinds, headwinds, I mean, good times, tough times, and it has never changed in the sense of how we can build our – protect our profitability and grow the business.

So plan is in place actually and so I think that's how H2 folds (01:07:42). Of course, there are some easy comps, but we are more than ever ready to squeeze what we call there are no working costs for the business to invest behind all the great commercial initiatives that João just highlighted during the call, so we are going to be totally on top of this.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay. Thank you. Thanks again. Thank you.

Operator

The next question comes from Gabriel Lima with Bradesco. Please go ahead.

Q - Gabriel Lima {BIO 16224058 <GO>}

Hi. Thanks. My question relates to beer in Brazil, you have – it's actually – with regards to competition, the compete – you have a competitor that has been very active mainly in the Northeast. It's been gaining share recently. And it had an agreement, recently announced with SAB. So just wanted to hear your comments on the competitive environment? If anything of your deceleration in pricing, promotional activities or accelerating marketing expenses is related to a tougher competition environment? Or if it's totally related to the workup during the third quarter? So that comment on the competitive environment will be very helpful. Thank you.

A - João Mauricio Giffoni de Castro Neves

Sure, Gabriel. Thank you very much for the question. I think it's a very important one and one that we feel very good about it. I think we stated the plan very clearly in the beginning of the year what we wanted to do, great World Cup, affordability, balance between volume and price, to be in a better position, to grow our business on a going-forward sustainable basis, building momentum.

So that we said at the beginning prior to knowing anything that you just mentioned. And actually the results are very good, right. I mean, we found a better balance. We will deliver the balance that we wanted for the year, that I can rest you assure, in a more affordable manner. So that was also very good.

Giving the guys, the people that want the balance through pack prices what they want, the ones that want the premium, the Stellas; the Budweisers, the Original, having also that, much better share position, so regardless of whatever happened anywhere or with anyone, the three main competitor in this marketplace: one, has been losing for now, I don't know 18 months, 24 months in a tough spot. I mean others are stable. Others growing a little bit but also losing in the last four months, right? Actually everybody lose in the last four months, but we're gaining in any way shape or form we looked that for the whole year whether in the year-to-date or whether in the third quarter.

So everything that you saw in this year had nothing related to the competition per se so that's why we said relative price should the consumer has remained stable. That's very important so that we don't mix our strategy with any reaction. There's no reaction to anything. Actually the fact that the plan is working, it's working in any way shape or form in the sense for why we wanted, right, to build momentum to have the share where we want, to have the preference where we want, to have the balance, to be affordable. And by coincidence good work that has also served us well from a competition standpoint, we are in a very good place.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay. Thanks, João, and good luck for you and Bernardo.

A - João Mauricio Giffoni de Castro Neves

Thank you very much.

Operator

The next question comes from Carlos Laboy with BR Plural (01:11:04). Please go ahead.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes. Good afternoon, everyone. João, can you give us some long-range vision on how underserved is the premium brand category in Brazil the way you see it, maybe some of the list of things that are less to do? Then the same thing at the lower end of the price spectrum with the 300 ml brand – ml package which you say is underserved, I guess what I'm looking for is if you can put in context how early stages we are really in Brazilian revenue management because I think so many investors think you walk on water. You've conquered every mountain and maybe your parting vision on all the work that you've left for Bernardo to do in terms of these next frontier areas would be helpful perspective. Thank you.

A - João Mauricio Giffoni de Castro Neves

Hi, Carlos. Thank you so much for the question. I think that is the one question that gets me really excited about the prospects for Brazil because, I mean, I think at both ends but also in the middle, I think the next years we'll see – we're not talking about next six months or so, but when we look out five years, I mean demographics are great, right? Per capita is great. I mean, all growth both from demographics until 2032, per capita all the way to do it. Affordability even when you compare with other markets still a lot to do.

And Bernardo has a lot of experience in this and on top of the experience he built here in Brazil and Canada in Argentina and now in the U.S., when we look at the high end, having lived in the U.S. for the past two years, three years for him, that could be a future here, right, which means a lot of different things to happen, right. It can be near beer as we're doing now with Skol Beats Senses if you want. Craft as we have with the Bohemia Craft that was just launched in the last few days, also service level to the point of sale, which actually – we already are two to three times better or where we were two years ago, and that's not coincidence that we're gaining share and that we're at a better place at the premium.

So brand building, often to the consumer, and service level, we are 20%, 30%, or we are going to be. We're going to be for sure. So a lot of opportunities there, Bernardo being the right person to take us from this 20%, 30% to whatever level, 70%, 80%, and building a lot.

At the end it's 6%, 7%, 7.3% this quarter for the industry, right, compared to 13% in Argentina, 22% in Chile, just to say two close countries, (01:13:45). So lots to do, have the brands have the people, and now have the mind-set to serve those blocks in the right manner, right. But we have 20% of the selling that we're going to get in the next few years.

In terms of the 300 ml, you are right. I think some people feel just because we've been selling it, and we've been selling close to whatever, 8 million or 9 million hectoliters, I mean, there's still a lot to be done, a lot – in a smart way, in the different channels, whether that is in the off-trade or in the on-premise, we've made a lot of investments. This is now in – this was in three plants, from three turned to four or five. And we were adding another three this year, so this is being rolled out throughout the country, not just from a selling perspective, but also from a plant location or for logistics better going forward.

And once again, I think, we will do the right thing. We have increased this five times, if you want, in the past two years, three years when we went 1% of the mix getting to almost closer to two digits. But it's still early, early on, a lot to do in a smart way in terms of pack price, profitability on the different channels. And once again, Bernardo has all the knowledge in the world to take that once again to the next level, embedded in the trade programs, okay, embedded also with the right route to market.

And then at the middle, the one you didn't mention, but I also think we have our work to do and that also gets me excited because the two parts (01:15:15), right, I think we still can do a lot with Skol, Brahma and Antarctica by expanding those brands. Those brands have permission to play in the different areas, as we saw with Brahma 0.0. I mean who would believe that just two years ago, this segment was a slow, boring segment, which is now a great product with a great liquid, with the right positioning, right, that's doubled, and one brand in 18 months capturing 65%. So there are those opportunities that remain (01:15:45) in the core that I think will also surprise the market by innovating our execution at the core. Thanks for the opportunity.

Q - Carlos Laboy {BIO 1506984 <GO>}

Thank you very much.

A - João Mauricio Giffoni de Castro Neves

Thank you.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Nelson Jamel for his final remarks.

A - Nelson José Jamel {BIO 16334129 <GO>}

Okay. Thank you, Gary. Thank you, everybody, for joining us today, and we look forward to speaking with you again after strong finish of the year. Thank you very much. Bye-bye.

Operator

The conference has now concluded. Thank you for your participation. You may now disconnect.