Q3 2021 Earnings Call

Company Participants

- Jean Jereissati Neto, Chief Executive Officer
- Lucas Lira, Chief Financial, Investor Relations and Shared Services Officer

Other Participants

- Analyst
- Isabela Simonato
- Marcella Recchia
- Ricardo Alves
- Robert Ottenstein
- Thiago Duarte

Presentation

Operator

Good morning, and thank you for waiting. We would like to welcome everyone to Ambev Third Quarter 2021 Results Conference Call. Today with us, we have Mr.Jean Jereissati, CEO of Ambev; and Mr.Lucas Lira, CFO and Investor Relations Officer. As a reminder, a slide presentation is available for downloading on our website ri.ambev.com.br, as well as through the webcast link of this call. We would like to inform you that this event is being recorded, and all participants will be in a listen-only mode during the company's presentation. After Ambev's remarks are completed, there will be a question-and-answer session. (Operator Instructions)

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 beliefs 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 the 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 refer to comparisons with third quarter of 2021 results.

Normalized figures refer to performance measures before exceptional items, which are either income or expenses that do not occur regularly as part of Ambev 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.Jean Jereissati, CEO for Ambev. Mr.Jereissati you may begin your conference.

Jean Jereissati Neto {BIO 20161989 <GO>}

Hello, everyone. Thanks for joining our third quarter earnings call. This is our last call of the year, so we would like to do things a little bit differently today. I will cover the highlights of the quarter in a moment, but I would like to begin talking about people.

I have been very vocal about how Ambev is on a transformation journey. Transforming a company like ours, it's hard, it takes time, it's painful. There is a lot of skepticism and setbacks. In many respects, we are learning as we go, but we are doing this together as a team. A couple of weeks ago, something happened that personally mean a lot to me. Ambev was recognized by great place to work as the fifth best large company in Brazil to work for. Just to give you an idea of how transformational this is, in 2020, we ranked 27. A lot of great people built this company and we are a company of owners. Our people has been and will always be the heart and the soul of Ambev.

So I'm very proud to see that my team has been humble enough to face the brutal facts of the last few years and learn from our mistakes, has shown enormous resilience in the face of COVID, made both bans and delivered results consistently as we recover from the pandemic, and at the same time has helped the society, has stayed committed to building, better more collaborative, diverse, innovative, and more sustainable company for the long term, and is happier and more engaged along the way.

And this is true not only in Brazil, but also across the other markets where we operate. So a big thank you to everyone that has been making this transformation happen on a daily basis. The third quarter was another step on this transformation journey and frankly, it was another solid step in the right direction.

I end the last call saying that our top-line momentum would be put to test in the second semester. And in Q3, we delivered 20% net revenue growth with volumes up nearly 8% year-over-year. Nine of our 10 markets delivered volume growth versus last year, and eight of them grew volumes ahead of '19. And as a result, we delivered 180 million hectoliters on a rolling 12 month basis, 8 million hectoliters above our peak back in 2015.

In this quarter, we delivered another solid net revenue per hectoliter performance, which grew 12% versus Q3 2020. Comparing with '19, net revenue was up 43% on a consolidated level in the quarter and year-to-date, up 31% versus '19. If we break down this performance by region, our international operations generally continued to bounce back nicely.

In COGS, volumes grew nearly 9% year-over-year, and are just slightly below 2018 levels. As mobility restrictions continue to ease, thanks to vaccination, our volumes continue to recover led by the Dominican Republic and Panama with the core place in high-end portfolios continue to gain weight in our mix.

In LAS, volumes is grew double digits versus 2020 and '19, Argentina, Chile and Paraguay drove this growth. Also thanks to our core plus and high-end portfolios. Bolivia posted strong recovery from 2020, but remains below 2019 levels and there we still have a lot of work to do. Canada however had a terrific quarter in terms of top-line. Although we still above pre-pandemic levels, net revenue in the quarter declined at roughly 2.5% versus Q3 2020 with volumes down almost 7%, while net revenue per hectoliter grew 4.5%. The industry was too impacted by mobility restrictions and we face it some supply chain disruptions mostly in Quebec.

Starting to Brazil, starting with NAB. Net revenue increased 22% in the quarter versus 2020, and nearly 26% against '19. Volumes were up nearly 10% compared to Q3 2020, and almost 15% versus '19. This performance was mainly driven by Gatorade, H2O and Guarana Antarctica, all of which grew above 2019.

And last but not least, Brazil beer. Top line grew 16% in the quarter versus 2020 and 51% versus 2019. Our step change in volumes continued in the quarter with 7.5% growth versus 2020 and almost 35% growth versus 2019, outperforming the industry and gaining market share. This is a result of a commercial strategy that has consistently continue to work despite COVID, despite macro headwinds and despite competition. It is not just one thing that's working, it's a combination of a healthier portfolio as first with stronger legacy brands, plus strong innovation pipeline, which once again represented over 20% of our net revenues. In addition, we increased the number of fans of our brands by 3 billion people since 2019.

Second, a better service level, reaching 53% net promoter score in the quarter.

Third, our technology big bets which has continued to be structurally improve how we connect with consumers and solve our customers pain points. For instance, business now use it by 85% of our active customers in Brazil. Currently, offering over 350 products from forty third parties of different industries.

In addition to that, yesterday it was announced that BRF products will be made available through BEES, which is consistent with our desire to offer better service and solutions to our customers. And finally, great execution of our pack in channel strategy with the 300ml returnable glass bottles, leading the way as the on-premise continues to reopen. All we know, year-to-date top line is up 28% with volumes growing 12% and net revenue per hectoliter increasing 14% versus 2020.

When comparing with '19, we are up 31% in top-line, 11% in volumes, and 17% in net revenue per hectoliter. During our last three calls, I took the opportunity to focus on how each of our technological platforms in Brazil are enabling our transformation as a company. That delivery in Q4 of last year, BEES in Q1 2021, and Donus, our fintech (inaudible).

Today, I would like to spend some time on what I like to call the logistics revolution that is underway to allow these platforms to fulfil their potential. As Ambev transforms itself, each of our platform with inspiring brands that connects people and ecosystem, creating shared value, a best-in-class logistics operation is a must.

In the (inaudible), we created our second tier logistics operations, betting big on direct distribution with currently more than 100 distribution centers is spread across Brazil and making 80,000 deliveries per day. In the last two years, we have started to set up our third tier logistics operation, approximately $100 million have been invested to date on several footprint and technology related initiatives to better prepare us for this new operating models. For instance, in terms of creating a delivery footprint designed for growth, we are investing behind small, urban distribution centers near high density regions, making our delivery capabilities more flexible and agile.

This urban distribution centers are UDC's how we call operate only with small models like bikes, lightweight motorcycles and small vans, which are faster and cheaper for small drop size orders. The idea is to provide a better service level for small parts, using the right model with more efficient occupancy rates and lower carbon emissions, leaving bigger deliveries for bigger trucks. The UDC's

integrate B2B, B2C and the marketplace platforms. And we are also piloting, offering services to partners, gaining even more efficiency. We currently have five UDC's in operations, three of them in some power. We will end up the year with 14, and we are just starting.

To wrap things up, some quick words regarding our journey, the reminder of the year in 2022. 2020 was a tough year, but we stood our ground. 2021 has also be challenging, but we have continued to improve our performance in a consistent way, led by our v-shaped top-line recovery. So when looking forward to what 2022 will bring with its risks and opportunities.

Lucas will go into more detail, but although Q4 will be another tough quarter, we will continue to work to bring our nominal consolidated normalizing EBITDA for the full year back to 2019 levels. And based on our year-to-date performance, we believe there is room for improving this number, close a better 2021 and be better position for the next year.

With that said, let me hand it over to Lucas who will cover our financial performance. Thank you, everybody.

Lucas Lira {BIO 21526003 <GO>}

Thanks, John. Good morning and good afternoon, everyone. I would also like to start by talking about transformation, so I will kick off with climate action, where we also took a transformational step in the right direction during the third quarter.

Q3 was marked by the announcement of our first carbon-neutral brewery and malt plant in Brazil. Our Ponta Grossa brewery in the State of Paran? and our malt plant in Passo Fundo in the State of Rio Grande do Sul, delivered 90% reduction of CO2 emissions versus 2017 and had the remaining 10% emissions neutralized via carbon credits. This process began in 2012, when we built these plants designed to be low carbon operations and we're proud to see it come to life. Again here we focused on four things: heat produced on-site from biomass boilers, green energy produced on-site from biogas of the effluent treatment system, energy consumption efficiency leading to more than 15% total purchased energy reduction, and 100% electricity purchased from renewable resources, in this case, hydro.

As next steps, we will implement electrical forklifts starting in Q4 2021 and build on-site solar farms, starting next year. And these investments make total financial sense as well. Our decisions to move towards carbon neutrality has not only led to efficiency savings in terms of energy consumption, but also allowed us to secure renewable energy sources at more attractive rates than before. Also, this milestone is not an isolated event. We're developing a roadmap to have 100% of our production facilities become at least carbon neutral in the future, which we expect be able to share in the coming months.

Turning to our financial performance in the quarter. Overall, we saw a similar dynamic through the first half. EBITDA growth driven by top-line recovery, partially offset by cost and expense headwinds. The difference this time is that in Q3, we faced much tougher top-line comps than during the first half of the year, but the team's disciplined execution came through once again.

In the quarter, net revenue grew nearly 21% organically, lapping 15% organic growth in Q3 2020. EBITDA grew approximately 9% organically against 1.4% organic growth in Q3 2020. Normalized profit grew about 50%, following 2.2% growth in Q3 2020, while operational cash flow declined almost 10%, lapping 99% growth in Q3 2020, versus Q3 2019, net revenue grew 43%, EBITDA was up almost 16% in organic terms, while normalized profit increased 54%, and operational cash flow improved 80%.

Margin pressure unfortunately remains a reality with gross margin contracting to 50% and EBITDA margin contracting to slightly below 30% in the quarter. However, we did see sequential EBITDA margin improvement versus Q2 2021, which stood at 26% at the consolidated level if you disregard the one-off tax credits in Brazil. We still have a long way to go, but we see this as a relevant improvement nonetheless.

Now let me go through the main cost and expense drivers.

COGS per hectoliter increased 18.5% on a consolidated basis in the quarter. We once again saw adverse effects in commodity costs as the main factors, particularly in Brazil, while better mix offset higher unhedged commodity costs. Brazil beer cash cards for hectoliter in Q3 totalled almost 16%, which should be the lowest growth for the year.

FX and commodity pressures should still be an issue in Q4, but we continue to expect Brazil beer cash COGS for hectoliter to grow in the low 20s for the full year. As for cash SG&A, year-over-year growth totalled 23.6 on a consolidated basis. Sales and marketing and distribution expenses grew mid-teens, so below net revenue growth. The main drivers here were the same ones from Q2, albeit at lower levels of growth year-over-year.

An administrative expenses were nearly 81% higher year-over-year, which was primarily a result of provisions for variable comp since our performance for the year was once again better than expected, and (inaudible) performance remain on track during Q4, variable comp accruals should continue to impact our year-over-your performance.

In addition, it's worth sharing that when we break down our administrative expenses, ex variable comp accrual in regions like Brazil for instance, what we saw in the quarter and this is also true since 2019, is that overhead packages are growing below inflation with the exception of two packages: first, our investments behind B2B, B2C and fintech platforms; and second, technology spends to enable our transformation.

Despite the near-term impact, we have no doubt whatsoever that these investments make sense given our overall strategy, and we've managed to find non-working dollar savings and other lines to fund this transformation to a great extent. And as these platforms scale up and we find smart ways to leverage Ambev scale and reach, we do see opportunity for more attractive returns in the future.

Looking ahead, given year-to-date performance and should the recovery continuing the final months of the year, we feel more confident in our ability to deliver on our two main ambitions for 2021 despite a tough comp in Q4.

First, a healthy balance between improved volume and improved net revenue per hectoliter growth as part of our top line led recovery across markets. Year-to-date volumes are up 12.3% and net revenue per hectoliter is growing 14.1%. And second, normalized consolidated EBITDA performance for the full year above 2019 levels in nominal terms, which we more and more see as feasible.

Year-to-date, normalized consolidated EBITDA stands at approximately 16 billion Reais, which is 4.5% above 2019 in nominal terms, excluding the one-off tax credits in Brazil. Finally, some quick comments on our financial priorities of protecting liquidity and improving our return on invested capital.

Liquidity remains solid given strong cash generation, despite the several headwinds we faced since last year, but the environment does remain uncertain and volatile, so we continue to believe a prudent approach remains warranted. Our use of cash priorities also remain unchanged, reinvest for growth organically and non organically and return excess cash to shareholders over time.

And in terms of improving return on invested capital, the name of the game continues to be operating efficiency, coupled with better resource allocation across the company. Given the evolution of our business such as our bet behind B2B, B2C and fintech platforms, we believe that when thinking about profitability, we need to look beyond margin ratios and also focus on return ratios. Don't get me wrong, we will always focus on improving the drivers of margin ratios for each of our segments and ventures, but given their different financial profiles, we've been focusing more and more on return ratios to manage our business. 2020 was tough in terms of profitability in both dimensions, but the good news is that 2021 has the potential to deliver better returns than 2020, which is important progress despite sustained margin pressure.

Our journey have continuous and consistent improvement is well underway since 2020 step by step. This goes way beyond quarterly performance, and we will stay the course towards creating value over the long-term. Thank you.

And we can now go to Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Robert Ottenstein, Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. From what I can tell, there's really been a kind of an -- there's a lot of background noise there. An unprecedented kind of change in some of the competitive dynamics in Brazil, particularly in terms of categories with your leading competitor, apparently abandoning a lot of their core value brands, and just kind of totally restructuring their overall portfolio.

Can you talk about what is going on in the Brazilian beer business in terms of pricing architecture, what the opportunities are as you look at that, you're obviously bringing in Spaten as kind of a it's kind of a core plus proposition. But, what does it mean when you have such a dramatic change in the competitive landscape and you have a whole portion of the business economy or value beers being walked away from by a major competitor? Thank you.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Thank you very much for the question Robert. The Brazilian market has always been very competitive in general and it will continue to be for a while. But I mentioned at some point in time, that just when I arrived -- I would foresee the competitive landscape more with the trends on our site. Since that we have been working a lot on our plan, learning consumer trends, understanding the competitive landscape, and we are very excited about what we have been accomplishing.

The numbers of volumes that we have this quarter they show that. If you look at the numbers, it is not just about competition. We are really expanding our reach and expanding the number of consumers starting from reduction in our brands. So, we are really very excited about the plan. Innovation already represents more than 20% of our net revenue. So we are picking the right products in the right places. So we have been talking a lot about this, the Brahma, Duplo Malte that really came to be either of the corporate segment that was very underdeveloped in Brazil and has a potential.

So we have been growing new brands, distantly (Technical Difficulty) year-to-date. Our high-end is growing 20%. Now consumers are more and more electing one of our brands as the number one brand nail off. So we have 3 million more consumers that we had in 2019. All this transformation technology the reach the convenience that BEES and their delivery are bringing for consumers and customers.

So really about the performance is really about our plan 100% of the volumes expended in the industry came for our brands. And on top of that, we are seeing competitors really moving in some direction that is hard to really figure out exactly what's going on. So when we look at production numbers of -- of the industry and of competitors. In the end competitors, they are producing less than 2019 levels.

So this is something that we are much ahead of that and I'm not sure if that's really, if a decision is really something that we are selling and we are getting it, right. We're getting the consumers and looks like somehow consumers are more -- end customer is more towards our brand. So we're going to keep looking an eye on competitors.

I think that's a big opportunity for us, anything that happened on the competitive side, but we are really excited about how we are bonding with our consumers. How we are all time high relation with our customers in net promoter score, and how we have been able really to drive industry expansion.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Terrific. Thank you very much.

Operator

Our next question comes from Marcella Recchia, Credit Suisse.

Q - Marcella Recchia {BIO 21226398 <GO>}

Hi, Jean. Hi, Lucas. Congrats on the results and thank you for taking my questions. I have two questions on Brazil Beer. First is about loading. I would like to understand better if after announcing the second pricing can price increase in mid-September. You saw any signs of mismatch between selling and sell out late in the quarter that could have given an extra boost to the 3Q following performance. That would be my first question.

And secondly, it's about packaging supply, we have seen constraints for both glass bottles and aluminum cans globally and ahead of the fourth quarter which is a seasonal picking period for the industry. Yeah, I would like to see if you are seeing a reddening signs of constraints at the packaging industry in Brazil or even if it could become a risk going forward? Thank you very much.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Thank you for the question Marcella. So we brought that graphic that were of the rowing 12 months performance of our volumes in Brazil and in Ambev, because I think that graphic is really, it is really on a yearly rolling 12 month basis. It really mitigate any type of inventory changing levels. So I think that it was a good graphic for us to talk about. I'm very excited about the Q3 volumes, because they happened amid a sequential improvement on our net revenue per hectoliter.

So when we compare net revenue per hectoliter of Q3 compared with Q2, there were a lot of efforts in the Q3 to really keep it up, we'll find inflationary scenario that we are living in Brazil that pick it very fast, faster than we expected. And then it was announced that the price increase in October. I really don't I really feel that the Salinas allowed. They are pretty much in line in the inventories in the market.

They are really -- we didn't see any movement on that. We have been controlling that in a very sharp way, because we know that summer is coming and heading to your second question, what we are seeing the supply chain. It is the supply chain has been under pressure since the pandemic, we were able to keep it up with cans in resolve the availability of cans where we see a more normalized supply chain.

When we come to glass, industry is more pressured. We expected to see some normalization more into 2022 on the glass side. But somehow, this type of disruptions are in a much lesser extent that we had in 2020.

A - Lucas Lira {BIO 21526003 <GO>}

And then just to add there Jean, this is Lucas, Marcelo. I think, when it comes to glass bottles, one thing to keep in mind is that we have vertical right bottle production capacity in countries like Brazil. So that also gives us, right, a very reliable source and supply by for bottles and more flexibility to adapt to pressure in the supply chain overall. In addition to our long-term relationships with suppliers.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

And we are leveraging our global footprint too on that.

Q - Marcella Recchia {BIO 21226398 <GO>}

Got it, that's very clear, thank you guys.

Operator

Our next question comes from Ricardo Alves, Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Good afternoon, everyone. Thanks for the color, Jean, and thanks Lucas, impressive numbers indeed. I had a couple of questions. One follow-up on the competition side. You alluded to this Jean, but on the main competitor, I think that the first question was one of the main competitor but you know when you look at your numbers and if you look at the industry numbers that we can track.

I mean, your performance is significantly above even you're significantly outperforming other smaller players as well. You know, could you just shed a light on how you're performing relative to them? Are there any perhaps specific categories where you're outperforming or specific regions where you think you're performing better than your smaller competitors. We've seen from the ecosystem for example, different regions performing very differently. So I don't know if that could be part of the story. That's my first question.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Okay, so let me try to elaborate more on that. So if you put our numbers together you are, you are going to see that we are gaining a lot of market share, it's not just a little is a lot of market share. And this is based on our plan. I think the Core Plus segment, it was a bet that we did two years ago. That's really paying off. The innovation, there is a lot of innovation there.

But Modelo promotion is coming, it's passing is coming very well too. So we had this strategy of helping their own trade to transform itself during the pandemic and have takeaway initiatives with these ml format, very affordable of 200 ml bottles. This is performing very well too.

BEES brought to us from pre-pandemic levels. We had 750,000 customers. Now we are reaching 1 billion, 1 million customers in Q4. So our plan is really structural. I think it is really working. And when we look at competitors, both of them, the two producing less than they have produced it already below 2018 levels.

It doesn't, it doesn't see. It seems to me that is, is a supply restriction. It really is not because you have a plant that you can sell. So consumers has to buy the customers should be in your hand. So I really feel that our commercial strategies really acquiring more customers and like seducing more consumers, we have 3 million more consumers.

So, I feel that our strategy is going is doing okay. So we did the right investments on capacity in the last two years to be prepared for this type of violence and I just feel that competitors they are not been able to really get the transaction right and ready, ready to sell. And given this announcement that we are listening all the time about competitor's increasing capacity, I questioned myself, if it's if this is more of an upgrade on capabilities, that's really a potential to put more volume in the market.

So, I think this is a big question for us. So having said that, we are selling very well on North, Northeast, Middle East, Middle West. Most of the areas are doing very well. Is amazing how we have been growing all the segments. So we are growing Core that it was a handicap that we had in the past the Core was really going down. We are seen our three brands Brahma, Skol, and Antarctica growing. We kind of created the Core Plus segment where we are really having Bohemia, Brahma, Duplo Malte and Especial. And our high-end portfolio is really year-to-date growing on the 20s.

So I'm seeing a very balanced growth when in segments, I'm seeing a very balanced growth in regions that shows that looks like our commercial strategy is really paying off besides the challenges that we have on the macro side, besides the competitor, the competitive landscape. I really, I'm really happy with our commercial strategy.

Q - Ricardo Alves {BIO 16840901 <GO>}

Super helpful. Yeah, thanks for that. One final question. Very quick one on the revenue per hectoliter. Also in Brazil Beer when you're thinking about the fourth quarter, just wondering whether latest thoughts are because of the price increase. I don't know if there's any major mix of category or mix of channels that we should have in mind when we're thinking about the unit revenue but even more interested on the price increases. How they've been accepted so far. So, if you -- if you were able to share any color on how October is performed on that front, that will be helpful. Thanks again.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Okay, so in the end, we don't disclosure that much and do forecasts on the Bing. It was public that we did it in the beginning of October. So what we have seen is that, so it's in the market. So the numbers are in the market and it's pretty much around the same shape that we have been doing for a while. What I can tell you that is really exciting me, it is that they own premise recovery has been stronger than we anticipated.

We are seeing because at some point in time, we help the bars to transform and then they became platforms to take away in deliveries, that delivery helping them a lot. But now, we are seeing the social out of home occasion, getting traction again. So there is pretty much when you get with your friends and go to the bars and really drink, in the bar so we are seeing this occasion really picking up, faster than we expected. And looks like this will help us on this occasion.

There is occupation that is very profitable for us that we have been always designed it for it. And it's really coming back stronger, strongly and we foresee, for example, the RGB bottles and the RGB mix really they are growing sequentially more than we expect and we foresee 2022. They are above 2019 levels.

Q - Ricardo Alves {BIO 16840901 <GO>}

Right. Thanks, Jean.

Operator

Our next question comes from Thiago Duarte with BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you, good afternoon everybody. I have two questions. I'll stick with the Brazil Beer discussion here. The first one is a question on, how should we think of Ambev's brands fair market share in Brazil Beer right now. Particularly in terms of the price point relative to the actual market share that you have achieved.

It looks like you're capturing a lot of market shares as Jean said just now. Pricing is evolving but it continues to lag the overall beer inflation and despite the premiumization of the mix and margins. And I'm not even relative to basis points, but even unitary terms margins are not much higher in nominal terms than they were several years ago. So Jean, you mentioned in the opening remarks that help your portfolio, better service level. You mentioned you're reaching 3 million more people, consumers relative to 2019.

So I wonder what, how that should translate into the discussion between your actual market share, your fair market share and the price point that you see for your most relevant brands today? I mean if we look historically, this is a point in time where you guys would probably be capturing a lot more pricing power than we have seen so far. So that's the broad discussion I was looking to have.

And the second question is on the industry. I mean even putting the market share discussion aside, I think ADI in their conference call they mentioned an beaming gaining share of throat in many markets including Brazil. But it's just still for us is striking to see the how the aggregate beer industry volumes are growing in spite of the very tough comps from last year.

So if you could comment on how the category growth is sustainable in your view relative to other alcoholic beverages. And of course, in terms of per capita consumption relative to where we were before and into the future would be nice to hear as well. Thank you so much.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Okay, let me see if I can get this right Duarte. So, Duarte it's true we are with a market share gaining when we put all the numbers together, better than we expected, better than we anticipated so this Q3, when we compare with what competitors are doing, there's a lot of market share gains over there based on our strategy.

We have been building their high-end in the Core Plus segment. If you remember at the beginning of the year, we gave a guidance of our VIC in beer Brazil growing in the low 20s. So, we knew that this was coming, so a big part of it was because our hedging policies in the impact of the currencies that we had in the hedges this year. And we are really put it on our pricing strategy based on the consumer side, what consumers can really pay and to maintain our volumes health.

And then based on that on top of that really work on the mix of innovation, the mix from channels and over-deliver based on that mix. I think we have been able to, we kept our guidance in our VIC numbers. So we are really working on that even though lots of things happen in the commodity size. But this year, we are really maintaining our guidance. And then we have the consumer ability to pay that what happened in Brazil with was the inflation pick it up very fast.

And that is the reference to on our pricing decisions to really guarantee that the beer in the basket is, competitive for us to continue to develop share of throat and continue to live develop per capita. And in with that type of volumes that we are having in with the inflation picking up this equation. We're going to follow to really guarantee that our revenue per hectoliter is above and what we need and we believe that the next year, this equation will be more on our side.

Okay. So, somehow we follow the -- we follow the installation with rates on top of that we have the innovation and premiumization strategy. On top of that, we have the revenue management and we believe that we are really getting these muscles rights and pricing we will get better. One thing that I would like to like you mention on the transformation side there is that, we are learning a lot on the revenue management site with our fintech and with BEES. And we are beginning to pilots the trade-off of discounts in cash backs, how our customers and how consumers really react to that, is a whole new world of possibilities for us.

And this is something that I'm very excited, is a project that it will help us a lot on this review management of the future, okay. So having said that, talking about the industry. So we as we have been very excited about the way you have been developing the industry in Brazil. All the industry expansion is really coming from our initiatives.

When we looked Brazil on a granular base, we still have a lot of opportunities on per capita when we compare regions S?o Paulo and Middle West, they still have a very different level of per capita consumption. When we look that frequency, that it was something that peaked during the pandemic and we look that U.S. and maturity markets. We still have a lot of opportunity on the consumer side to increase frequency.

So we believe that a big part of it, we will stay. So we are still very excited about the per capita consumption in the industry expansion, moving in the future. And on top of that, we just put in place and this is more of a share of throat view, our business units of beyond beer in future beverage, that I think is a huge opportunity for us here in Brazil to learn what's going on in Canada.

In U.S., we are really working on the Mike's brand. We are bringing RTDs. We are bringing whining cans and I'm really excited about this another avenue of growth that we really that there is a creative is net revenue practical interest is higher in. There is a lot of opportunity own share of throat to continue to grow on that side.

Q - Thiago Duarte {BIO 16541921 <GO>}

That's helpful. Thank you, Jean.

Operator

Our next question comes from Isabela Simonato from Bank of America.

Q - Isabela Simonato

Thank you. Good afternoon, everyone, Jean, Lucas. I have two questions. First of all thinking about 2022, right to understand that you guys will release the guidance on COGS beginning of the year. But if you could give us a color on where you're seeing cost pressures and especially your aspects had, just given the recent depreciation of the BRL that will be helpful to understand how to think about next year?

And second of all, Lucas, you mentioned in the presentation, right about protecting or equity, and the balance sheet and in the same time, we have a potential tax reform in Brazil, how are you guys thinking about returning cash to shareholder not only in terms of timing, but if we could expect an increase in this year versus 2020? Thank you.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Hi, Isabela, thank you for the question, starting with 2022 cost outlook. I think the first important message here is that the scenario right for input costs remains, right fairly volatile, as I'm sure you all been following, particularly, in Brazil and Argentina. And there are still some hedging to do before the end of the year, right, we continue to work under our hedging policy to give us the predictability right going forward. And give us time to prepare adapt as needed from time to time.

But what we, can say at this point is that although 2021, the main headwind was effects followed by commodities. In 2022, what we're seeing as of today, is that effect should be less of an issue. Okay, because of the because of the hedge and happening kind of on a rolling basis and how the BRL especially kind of evolved throughout the year as hedging was underway. So we see less pressure going into 2022 from effects and more pressure coming from commodities.

And again, as I said there's still some hedging to be done, okay. And last but not least, one of the things that has helped us in 2021 and we hope that could also play a role favorably going into 2022, is the mix, right?

As I mentioned in my opening remarks. One of the things that has contributed to our better-than-expected performance is the mix starting to work in our favor. And in case of the COGS impact, of the mix evolving better than expected. The mix has helped us offset our unhedged commodity exposure that picked up right in Q2, picked up again in Q3.

So, I think the mix to the extent that the team continues to do a good job on the commercial side as the on-premise recovers as returnable glass bottles, right, continue to come back in a healthy way. Hopefully mix will also once again play in our favor. And then as you said, we hope to be in a position to provide more visibility with respect to what to expect in 2022 at the end of February, when we announce the full-year results.

As for the second question, in terms of returning excess cash to shareholders over time. This is a year-end decision. So we continue to work as I mentioned in my remarks, under the same paradigm in terms of how we think about capital allocation in the company. So, priority number one remains to reinvest in growth, be it organically, be it non-organically. So that hasn't changed.

And then, in addition we will continue to return excess cash to shareholders over time, but that's a that's more of a year end conversation that we will have with the Ambev board.

Q - Isabela Simonato

That's clear. Thank you.

Operator

Our next question comes from Thiago Bertolucci, Goldman Sachs.

Q - Analyst

Hey, Jean, Lucas good afternoon everyone and congrats for the result. Just trying to add per year revenue per hectoliter growth in Brazil in a bit more details. You guys mentioned earlier in the call, the positive impacts of the on-trade mix into your average price is, right?

However, when I see net revenue per hectoliter in Brazil Beer it is still up but sequentially decelerating. Can you please break up in more details what where the drivers for the sequential deceleration there? And in terms of overall trends, I know you don't have a guidance for the quarter. But what should we expect for the fourth quarter, bearing in mind that cash COGS per hectoliter should sequential accelerate. Thank you very much.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

Yeah, so in the end, when we started the year, we have always been mentioning that our revenue management strategy will be very agile, nimble for us really to get the best opportunities in the market to learn with regions and we have everything.

And to be very honest, this June, so, this decision of so the inflation pick it up very fast and we were trying to catch up as we move. So that was something that it was not planning in the beginning of the year. And somehow we were very happy to in this context to see the Q3 net revenue per hectoliter, really like peaking. So it was better than Q2.

And when we looked at, if it's accelerating or not, you have the last year basis where we have to compare. What I can tell you, it is that this elasticity that we saw in Q3 when we compared with H1 in Q2 of the price move in which this type of volumes, it really surprised us in this equation was an equation that come above our expectations which suggests that our brains are stronger. We had more volumes to the net revenue per hectoliter increase. So we are very happy with this type of with that algorithm in with that type of equation.

So having said that so what was really playing in the beginning of the year for us to do, right to do accordingly. It was really the October move that we are now said it was public. We made it happen. It's in the market and I think this is, it's more substantial.

Q - Analyst

No that's clear. If I may just follow up on the delivery. You reported volumes essentially flattish, quarter-on-quarter, right, any early signs of some changing mix or cannibalization with the reopening this far?

A - Jean Jereissati Neto {BIO 20161989 <GO>}

So, let me get your question to talk about the technology platforms. I'll talk about Ze, and then I will jump into BEES and Donus. So Ze Delivery is on the right path is really, we are very excited about it.

So we have, so we stopped at the little bit the CD expansion for us really should get all the all our strategy, right. So we spent less CDs, then we expect it. We didn't see that much change on the project on the plan that we have with Ze Delivery. But Ze Delivery is really thinking more and more to be more omni-channel to really think about not just the convenience piece, but all the journey of our consumers, we are starting back the expansion on the series.

And in we are working a lot on the less mile-efficiency. So these are the three things, major things that we are doing on Ze Delivery and Ze Delivery, it will it's really a success and it will continue to grow a lot, but we have these three fronts that we are working on omni channel expansion CD by CD. And then less mile-efficiency that is something that to have the business sustainable in the long term.

And one information that just for you to know. So we were able to get Ze Delivery already that is pretty much focused on the in-home occasion with the same RGB mix that we have in the average of the company and that's really something that it happened ahead of time. So 40% of the mix of Ze Delivery is already coming from returnable bottles, because the motorbike it takes the bottles and get it back. So this machine is really working. So we are really excited about that.

So Ze Delivery is in place, we will grow is really going to the next level in terms of having more occasions, be more omni-channel, restart the expansion and really get it with the less mile-efficiently. So one thing that I would like to mention is that really we talked a lot in many times about BEES. I mentioned that 85% of our active buyers are already in the platform that we achieve it, our 1.1 billion annualized marketplace GMV in Ambev of BEES, just mentioning the products that are not from Ambev's portfolio. So this is something that is doing very well.

And yesterday, we announced the partnership with BRF and I would just like to mention because this partnership is different from what we are doing. We have been doing these pretty much the 1 PL.

So we buy, we sell. It goes through our warehouses. But this deal with BRF was the first one that it was really a contract of a software-as-a-service. Okay, so building the end is really providing a software service to BRF and then BRF. We will have BEES on their sales reps on the pound tops and their customers. We will use the platform of order taking and BRF has around 250,000 customers that they go direct and they will have us access to our 1 million base of customers in with BEES really providing a service-as-a-software.

Okay, so this is really something that is different from what we are doing. I am very excited about it, you have BRF with us. And the third one is really Donus, the fintech that is really growing very fast is, so we are now with BRL1 billion of TPV year-to-date. So just in Q3 we have BRL650 million in TPV, is really tripling sequentially. We have 145,000 customers that downloaded the wallet.

And we are really working on the machines that they creates. We are really doing credits for our customers and really moving to the revenue management in the trade-offs of discounts and cash back. So, these three initiatives, I'm very excited. They are really getting sizable. They are really beginning to bring a lot of value for our company.

Q - Analyst

That's amazing, thanks guys. Very clear.

Operator

Excuse me. This concludes today's Q&A session. I would like to turn the floor over to Mr.Jereissati for his closing remarks.

A - Jean Jereissati Neto {BIO 20161989 <GO>}

So I would like to thank my team again, once again for this quarter. I would also want to thank all the analysts and everyone who joined the call, for time and attention.

And to wrap up in the full year despite the anticipated tough comps in Q4, we continue to work to maintain our commercial momentum, delivering a healthy topline recovery. Also, we will not lose sight of the long term and return on the investments that we are doing now and we will continue to invest in our portfolio in the transformation through the tech ventures which continue to grow and become more sizable. Cash generation remains solid even in a year that we invested on the ventures.

We invested on capacity, if we invested on tech as part of our transformation journey and I'm very excited about the relationship and the bonding that we are having with our consumers, not just here in Brazil that we talked a lot, but I'm seeing brand equity and I'm seeing consumers lead towards our portfolios in all the countries that we operate. So thank you very much. See you next year and have a great day.

Operator

That does conclude Ambev's conference call for today. Thank you very much for your participation and have a good day.