Q3 2019 Earnings Call

Company Participants

- Bernardo Pinto Paiva, Chief Executive Officer
- Fernando Tennenbaum, Chief Financial and Investor Relations Officer

Other Participants

- Antonio Gonzalez, Analyst
- Isabella Simonato, Analyst
- Luca Cipiccia, Analyst
- Lucas Ferreira, Analyst
- Robert Ottenstein, Analyst
- Thiago Duarte, Analyst

Presentation

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's Third Quarter 2019 Results Conference Call. Today with us we have Mr. Bernardo Paiva, CEO for Ambev; and Mr. Fernando Tennenbaum 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. (Operator Instructions). After Ambev's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions).

Before proceeding, let me mention, 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 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 today during today's call, are both organic and normalized in nature, and unless otherwise stated, percentage changes refer to comparisons with the third quarter 2018 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'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 will turn the conference over to Mr. Fernando Tennenbaum, CFO and Investor Relations Officer. Mr. Tennenbaum, you may begin your conference.

Fernando Tennenbaum {BIO 20615079 <GO>}

Thank you. Hello everyone. Thank you for joining our 2019 third quarter earnings call. I will guide you through the financial highlights of our operations, including our below the line items and cash flow, as well as commercial initiatives of CAC, LAS and Canada. After that, Bernardo will give more details about our operations in Brazil.

Beginning with the main highlights of our consolidated results; in the third quarter, top line grew 5.9%, a combination of volume increasing 0.8% and net revenue per hectoliter at 5.1%. EBITDA reached BRL4.4 billion, an organic decline of 5.4% while EBITDA margin decreased 150 basis points to 36.9%. Normalized net profit for the quarter was down 15.8%, delivering BRL2.4 billion. Similar to last quarter, we continue to report the results of our operations in Argentina, applying hyperinflation accounting.

Having said that, I will now move to our divisional results and start with Brazil. In the quarter, Brazil EBITDA reached BRL2.4 billion, a decline of 13.3% versus Q3 '18, while margins contracted 710 basis points to 37.9%. Beer Brazil top line grew 1.1%, with a volume decline of 2.8%, while the industry grew low single digits, according to Nielsen. Net revenue per hectoliter grew 4%. EBITDA for Beer Brazil was down by 7% in the quarter, with margin contraction of 350 basis points to 40.3%. This contraction was explained by the cost pressures we already had anticipated in the full year 2018 earnings release.

Cash COGS per hectoliter grew by 26.5%, impacted by commodities and FX. Year-to-date, top line in Beer Brazil increased by 7.8%, volumes are 3.9% and EBITDA was down 3.1%, with margin contraction of 450 basis points to 40.0%.

In NAB Brazil, top line was up by 13.6% in the third quarter, the result of a 6.6% net revenue per hectoliter growth, and 6.5% volume increase. Industry grew low single digits, according to Nielsen. EBIT in the quarter declined 44.3%, with margin contraction of 2,640 basis points to 25.4%, due to hard COGS comparables in Q3 '18. Year-to-date, top line in NAB Brazil increased by 17.5%, and EBITDA was down 5.8%, with margin contraction of 830 basis points to 33.5%. For Brazil consolidated, we reiterate our guidance of cash COGS per hectoliter growth of mid-teens in Brazil for this year, which should be more pressured in the first two quarters, easing off towards the end of the year.

Moving now to Central America and the Caribbean; CAC continues to show good momentum, with 6.8% net revenue growth, which is a combination of 2.8% increase in volumes and a healthy 3.8% net revenues per hectoliter growth. EBIT in the quarter reached BRL688 million, posting a double-digit growth of 20.1%, driven by strong growth in Dominican Republic and margin expanding 470 basis points to 41.5%. Year-to-date top line in CAC increased by 10% and EBITDA was up 23.2%, with margin expansion of 460 basis points to 43.2%. We are pleased with our commercial strategy in CAC, delivering healthy volume performance in virtually all countries in which we operate.

In the core segment, Presidente launched a summer campaign, La Fria mas Fria, while delivering experience to consumers with a refreshing results. In Panama, our second largest market, we celebrated this quarter the 110th anniversary of Cerveceria Nacional, reinforcing the live [ph] connection with consumers through a multi-category activation.

We also continue to roll out our premiumization strategy in the region, developing Corona, Stella Artois, Modelo and Budweiser through a customized execution both for the on-premise and off-premise channels.

Highlights of the quarter were triple-digit growth of Modelo in Dominican Republic and of Budweiser in Panama. Premium accounts for less than 5% of the beer industry volume in CAC, representing a great opportunity for the future. I'd like to take this occasion to say that we continue to be very excited about our business development, and strong volume performance in CAC, reinforcing our positive outlook for the region moving forward.

Switching now to Latin America South; volumes in the region increased 6% during Q3 '19, driven by Argentina, where volume increased by mid-single digits, as a result of shipments phasing ahead of scheduled price increase in October 2019, and benefiting from favorable comparable in the prior year. Net revenues per pectoliter increased 15.3%, which led to a 22.3% top line growth. EBITDA in LAS for the quarter was up 7.9%, with margin contraction of 530 basis points to 38.2%. Cash COGS per hectoliter in the quarter increased 28.6%, mostly driven by FX and commodities. Year-to-date, top line in LAS increased by 14.1% and EBITDA was up 15.9%, with margin expansion of 70 basis points to 42.3%.

Despite the macroeconomic volatility throughout the region, we remain focused on what we can control in our business and had positive development. In Argentina, we maintained a strategy of differentiating the core brands. Quilmes, our classic lager continues to enhance its national credentials with the launch of the Hecha con Carino campaign. Brahma, our easy drinking lager, activated a campaign in Friend's day, capturing attention of younger public above legal drinking age.

In the core plus segment, Andes Origen led the growth with the launch of a single serve returnable glass bottle of the red lager and in September it broke its all-time high volume of sales. Budweiser embraced the new platform of international soccer, exploiting the global sponsorship of Spanish La Liga and the English Premier League.

We continue to see strong growth from our portfolio of brands in the premium segment in the region, with double-digit growth of the portfolio in Argentina. In Chile, the premium portfolio grew double digit as well, with Cusquena being the highlight, delivering triple digit volume growth in the country.

Going forward, while cautious with Argentina in the short term, we have positive mid and long term perspectives in the country, and remain confident in our ability to deliver solid top line and EBIT in the whole region, supported by strong portfolio.

Turning now to Canada; in the third quarter, top line in Canada declined at 3.2%, a combination of 2% net revenue per hectoliter increase, and a 5.1% volume decline, which was mostly driven by a declining beer industry. EBITDA reached BRL565 million, 14.9% lower than in the third quarter of 2018, with margin contraction of 390 basis points to 28.4%.

Cash COGS per hectoliter increased 7.6%, negatively impacted by increased commodities price, higher mixes of imported beers and lower dilution of fixed costs. Year-to-date, top line in Canada decreased by 2.4% and EBIT was down 8.6% with margin contraction of 200 basis point to 28.9%.

Despite the industry challenges, we had positive achievements with our portfolio during the quarter. Our focus core and core plus brands continue to deliver strong results. Michelob Ultra supported the health and wellness platform, remains the fastest growing brand in Canada.

In the premium segment, our high-end portfolio is growing ahead of the industry, led by a double-digit volume growth of our premium import brands, such as Corona and Hoegaarden.

Now, back to the consolidated figures below EBITDA; in the third quarter, net financial results totaled an expense of BRL306 million, 64% lower than in Q3 2018. The main items in the financial expense in the quarter were, first, interest income of BRL626 million, driven by our cash balance and recovery of a tax dispute.

Second, interest expense of BRL394 million, that also include interest incurred in connection with the Brazilian Tax regularization program, as well as a non-cash accrual of approximately BRL60 million related to the put option associated to our investment in the Dominican Republic business.

Third, BRL312 million of losses on derivative instruments, which were up year-over-year, explained by the increase of FX hedges carry costs linked to our COGS and CapEx exposure in Argentina and by equity swap losses.

Fourth, losses on non-derivative instruments in the amount of BRL291 million, mainly explained by non-cash intercompany FX variation, mostly linked to the Argentinean peso depreciation.

Fifth, taxes on financial transactions on the amount of BRL58 million. Sixth, BRL121 million of other financial expenses, partially explained by the accruals on legal contingencies and pension plan expenses.

Seventh, BRL174 million of exceptional financial income explained by non-cash intercompany transactions.

Finally eighth, BRL70 million of financial income related to non-cash incomes resulting from the adoption of hyperinflation accounting in Argentina. The normalized effective tax rate was 7.9% in the quarter. Year-to-date, the normalized effective tax rate was 13.3% versus 7.6% in the same period of 2018. Cash generated from operating activities in Q3 2019 was of BRL3.6 billion, which is 34.2% lower than last year.

Year-to-date cash generated from operating activities is declining by 8.5%, reaching BRL8.7 billion. CapEx reached BRL1.6 billion in the quarter and BRL3.1 billion year-to-date, increasing 38.2% versus the first nine months of 2019.

Thank you very much. Bernardo will now share some initiatives and thoughts on the Brazilian market, before going to the Q&A.

Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thank you, Fernando. Hello everyone. Before I comment to the key highlights of the quarter, I would like to spend some more time to talk about the transformational change in our business towards becoming even more consumer-centric, and a more technology driven company.

This transformation has two main pillars. First is our culture; never forgetting the core values that brought us here, such as our ownership mindset, high and developed great people, the culture of opening gaps and closing gaps, and never taking shortcuts. These values will continue to be the basis for us to achieve our objectives into changes (inaudible).

Second, our strategic growth platforms; we'll be very consistent on applying this strategy to all areas of the company, and we strongly believe this is the correct path for sustainable growth and value creation for investors. Consumer is changing and they are changing and evolving as well.

Regarding becoming an even more technology driven company, we have some key milestones, that's very important to highlight, such as the acquisition of an IT solutions company streamlining the IT area, to give more focus to our core and new business, and adding a position of VP of Technology.

Now talk about this quarter. As mentioned by Fernando, we continue to deliver on our main initiatives, including innovation and continued premiumization. During the quarter, volumes were down 2.8%, while the industry increased low single digits, which means we lost share. The impact of our price increase was amplified by simultaneous competitor discounting and a challenging macroeconomic scenario. But in the first nine months of 2019, volume grew 3.9%, while the industry grew low single digits, delivering a share gain year-to-date.

We continue to be excited about the prospects for Brazil. Demographics are supportive, as population awarded [ph] in the legal drinking age is growing at 1.5% per year. On the penetration side, there are also meaningful opportunities, as half of the population older than 18 didn't have a beer over the last 12 months and most of them due to affordability.

As the country evolves, we will continue to see strong development of the premium segment, as well as an opportunity to increase consumption of beer by women in order to close the gap to more mature markets. We remain confident in the growth potential of Brazil, given our superior portfolio, which allow us to play in all the segments of the Brazilian market, reaching a more balanced top-line growth between volume and revenue. Our unmatched distribution capability, exciting innovations we have in the pipeline, consistent investments in our strategic platforms, and our people.

So now let's begin to talk about our first strategic platform, which is premiumize at scale. Premiumization is a continuous trend and it is always important to reinforce that our strength in the segment is a great portfolio, combining global and domestic brands. Our premium segment grew double digit this quarter, led by our global brands, continue the strong momentum we have been having in the previous quarters.

Budweiser, our largest global brand, plays a key role as a bridge for consumers who are trading up towards the premium segment. The brand's quarter was marketed by a 360 campaign, highlighting its functional attributes. liquid is striking at first, with a smooth finish, making it the king of beers.

Stella Artois continued to embrace the food platform, with another addition of Villa Stella, our proprietary event. The brand volume was also supported by the continued expansion of new pack formats, such as the returnable sharing size bottle. As a result, Stella Artois continues to grow very strong all over the country.

Corona continues to embrace the Better World platform, calling attention to the plastic dumped in the ocean. The campaign Undesirable Museum impacted approximately 22 million people. We are very excited with our latest launch Beck's and Colorado Ribeirao Lager. The volumes of those brands are very-very incremental to our portfolio. We are certain that the premium market is a portfolio gain, and that we are in the very strong position to continue to gain share in this segment.

Now moving to differentiate the core. Brahma, our classic lager beer, continues to experience a memorable momentum. The brand connects with consumers through relevant platforms, such as Sertanejo, the brazilian pop music, and soccer. This quarter's campaign were focused on Chopp Brahma. The outstanding Brazilian draught beer, and the Sertanejo platform. Chopp Brahma campaign, highlighted the main attributes of the brand with a six episode digital show about iconic Brazilian bars, link that to our franchise business. Chopp Brahma Express, the in-home experience.

For the Sertanejo platform, Brahma was present in more than 150 Sertanejo festivals throughout Brazil, including the two largest Barretos and Jaguariuna. Approximately 7 million people attended these events.

Skol's quarter was marked by the continued campaign of the Skol family, reinforcing the most recent launch, Skol Puro Malte, which from a volume perspective has been our biggest innovation in recent years, and it continues to expand quarter after quarter. Bohemia a core plus pure malt lager, also posted amazing results, growing triple digit for the third consecutive quarter and over a meaningful base.

I will now expand few minutes to talk about driving smart affordability. One of our approach to the segment is to build regional connections, thus creating brand equity at an affordable price point. And given local raw materials, local market, and only most profitable packaging, we are also able to deliver very healthy margin. This quarter, we will roll out Legitima in the state of Ceara. Nossa, Magnifica and Legitima are performing very well, with strong share gains in the states in which they were launched.

Before moving to operational excellence, I would like to talk about Beats. This quarter we announced that beats and the Brazilian pop singer Anitta will join force to develop and create new products. The first outcome of this partnership, the ready-to-drink Beats 150 BPM was launched on the beginning of October.

Going back to operational excellence, our mantra is, whenever called Brazil, there has to be Ambev. Operational excellence has always been one of our biggest strengths and key differentials. Given that point of sales connect our brands to consumers, customer experience is a strong focus. Complementing to to the strategy, we have our customer experience center. Our customers' requests operating many Ambev channels such as the B2B, the telesales, WhatsApp and our sales rep doing the visits, are directed to the center and solve it in one single place.

Talking about technology; as we highlighted last quarter, technology has been a key enabler for us to support our strategic growth platforms. To optimize Ambev's operation, we continue with the HBSIS integration, expanding and improving technology to other areas of Ambev, with more agility and scale. HBSIS ended the quarter with more than 500 developers. Also, to give some update on numbers, sales which are not conducted by sales reps at site, now account for 32% of the total of the on-premise channel, and Parceiro Ambev, our B2B tool, just surpassed 200,000 clients in September, compared to 66,000 in January.

Now moving to our non-alcoholic business division. We are quite pleased with our performance this quarter, as a consequence of the implementation of our strategic growth platforms. Volume increase came from all different segments in our portfolio. An important highlight as premium brands such as Tonica (inaudible) and Gatorade, which grew double-digits, bringing a healthy contribution to the portfolio mix.

Talking about sustainability; a quality beer starts with the best ingredients, and this requires a healthy, natural environment, as well as great commodities. We have been brewing for more than a century, and want to make sure that we are here for the next century, bringing people together for a better world. That's why sustainability isn't just part of our business, it is our business.

Through our 2025 sustainability goals, we have connected thousands of farmers to technology and skills, ensuring water access and quality in high water stressed communities, partnering with our suppliers to increase recycled content, and investing into renewable electricity capacity.

Finally, so far 2019 has been a good year as our portfolio of brands is delivering a healthy topline growth, which is helping to offset the cyclical pressures arising from FX and commodities. When you look beyond such cost headwinds, we get even more excited about the strong fundamentals in the growth potential of our business.

We are only able to achieve such results year-to-date given the amazing people who have always been the foundation of our company. With our team, our culture and our consumer-centric business model, we are confident to be in a strong position to deliver long-term sustainable growth.

We can now move to the Q&A. Thank you.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Isabella Simonato with Bank of America. Please go ahead.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, Bernardo and Fernando. Thank you for the call. I have one question in Brazilian Beer, if you could -- when you mention about competition in the release and you also see some headwinds should persist in Q4, can you elaborate a little bit more on how do you see the competitive environment, if you see some sort of structural change or if, in the beginning of fourth quarter now in October you already saw the move from the competition in terms of pricing? I mean, when we look for Q4 and also towards 2020, especially as your competitors should increase capacity, how do you see the market share equilibrium going forward? And if I may, a second question on soft drinks, we saw, I think a very pressured margin in the quarter, not only on the gross margin side, but also on SG&A? How can we think the profitability of this business in the longer run? Thank you.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Hi Isabella. Thanks for the question. I think let's talk a little bit about the quarter in terms of the volume. So we know that was down 2.8%, (inaudible) single-digit, low-single digit, which means that we lost share. The impact of our price increase was amplified yes, by a senior competitor discounting and a challenging macroeconomic environment that we still have here in the country, in Brazil. We know as well, I mean, from decades that we operate in this market, that promotional activities are to try to drive volumes in the short term. But does not build brand acting [ph] or sustainable business for the future.

When you take a more longer view in terms of the volume in terms of the industry, the first nine months. Yeah, we are in still pretty good shape. Our volumes grew 3.9%, outperformed the industry, that was low single digit, which means that we are gaining share in this period in the year. That's pretty good news. We had a very good an amazing first half outperforming the industry big time. So we entered in this price increase in the third quarter, yes and we have burned some volume compared to last year, given the points that I mentioned before. But again, we are still gaining share. This gaining share this year and outperforming the industry in relevant terms. It's important to point out that we have not seen any disposable income resuming as well, that affect the industry. And when it's happen -- I mean, we have a positive news in terms of disposable income, we will see a positive impact in our business for sure.

We continue to be very excited with how the portfolio is performing, continue to deliver strong brand power. I mean, you have innovation in the market, Skol Pure Malt, Bohemia Pure Malt, Colorado, Beck's, all of them performing very, very well.

Regarding the fourth quarter. I mean we do not comment in the current trading, that's what I could say. So all in all, it was a quarter and that we underperformed the industry. Seeing that the promotional activities of other companies were -- I mean, it was exactly in that moment that we increased the price. But I mean full year doing well, gaining share on the full year after an amazing first half.

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Hi Isabella, Fernando here. Your question on soft drinks. On soft drinks, if you see what happened throughout the whole year, you saw that our SG&A was higher because volume was performing very well, so that's somewhat linked to volume and somewhat linked to investing behind the brands. And that's definitely paying off, because we saw that top-line in soft drinks continues to be very robust in the third quarter. What was more of a one-off, you could say so, was the cost of goods sold; because if you remember last year, we had a huge improvement on cost of goods sold on the third quarter. And this year is more of a normal year, so the basis loss was very hard, that's why we see such a pressure. But actually, we are quite excited with our soft-drink business because top-line is performing in a very healthy way.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

And just to highlight some numbers, the volume in the first -- the third quarter was 6.5% above last year and nine months -- year-to-date 9.4%. In this low single-digit, top-line nine months is 17.5%. I mean business is doing very, very well. The growth platforms are working with us, they are working in beer, they're working in other parts of the business, driving premium, smart affordability, our core brands are doing too well. So very happy with the soft drinks and the non-alcoholic results so far.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thank you.

Operator

Your next question is from Lucas Ferreira with JPMorgan. Please go ahead.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hi, gentlemen. Thanks for the time. I wanted to explore a bit more the volume performance in Brazil for Beer. If you could give us more information about which were the categories that suffered the most, or which were the categories that you had more competition? And also region-wise, you have been having a very good performance in the north, northeast of Brazil. If that was still the case in the quarter, so if you can give us more color on the breakdown of this 2.8% volume performance, and how competition was doing in each of the categories and regions? And then my second question is regarding the fourth quarter outlook as well. Do you also foresee more pressure coming from pricing, how your competition is shaping up in terms of adjusting prices closer to your portfolio? If you can give us more color on what could happen in the fourth quarter, in the sense that that would be super helpful. Thank you very much.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thanks Lucas for the question. Again, I mean just to remind us and repeat our answers to Isabella. Portfolio in Beer [ph] is working very, very well and gaining share in all segments, stable in the core, gaining share in premium, gaining share in (inaudible). So innovations are working. So in first half of, the (inaudible) grew big, big time.

Third quarter, we increased price, competitors with promotional activities, with discounts going the opposite way. And this activity was in all segments. When this happened, and then we have all the experience, we have the segment that's really suffered more, because of the -- for the ability issue [ph], no disposable income, is more of the core segment. That doesn't that the core brands are not doing well, they are doing pretty amazing. Brahma, Skol family, the innovations that we're putting in place to support the core as well. But because of affordability issues that we continue to have in Brazil, disposable income, that's very low. When we will have widened the price gap, the core brands in the shorter term suffer more.

But again, what is that? I mean promotional discounts are a tool to try to drive volume in the short term, but does not build a business in the long term. We are not in this game. We are in the game of building brands and building a strong business in the longer term. We are here in Brazil for decades. We have been really seeing those types of competitive behavior before, and it didn't work for any company in the past, and have been working for us in the long run. So that's why despite of the -- of this price increase that I mean -- that we've done, and then this in terms of the competitor discount that happened, we continue to stick to our long-term approach, support the strategic growth platforms, investing behind different brands, innovation in the Ambev ecosystem that we are -- I mean in (inaudible) investing even more.

Regarding any price increase what we could see that last three or four months, you can see a kind of a historical business equilibrium in the market, and that's sort of like why I would say and that used to say. But again, we don't comment in current trade or anything about the fourth quarter.

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Yes. And Lucas just Fernando here, you asked about the fourth quarter. Look, we cannot give any outlook. The only thing we said in the release, is that some of the headwinds might be carried into 4Q. And at end of the day, when you mention something like that, it's always a combination of volume and net revenues, and the headwinds might impact each one of those in different ways. But I cannot comment much more than that.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Perfect. Thank you very much guys.

Operator

The next question comes from Luca Cipiccia with Goldman Sachs. Please go ahead.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi, good morning. I'm going to hit as well, sorry, on Brazil, just to clarify a couple of points. So I think your point about the fact that the nine month performance did show positive volume growth. I think it's fair. I guess what surprised us, and I would assume almost everybody else, is the magnitude of the decline in the third quarter can be -- given the comps and the timing of the price increase? And I think you pointed two factors, you point to the macro environment, you point to the competitive landscape, competitive reaction. So my question will be, on the first point for the longest time we heard the thesis, that soft drinks is a more macro sensitive category as compared to beer yet. It's been a while now that actually we see beer suffering proportionally more, at least the times of price increases, even where you have a clear leadership in that category.

So my question would be, why are we seeing this greater elasticity, if you like, in beer, as compared to soft drinks, which seems to have rebound, not just for you, but also for the market leader. And secondly on the pricing, you've definitely done a lot -- you are clearly of doing a lot on innovation, bringing new products to the market, new launches, new packages, new initiatives. Yet, it seems that your competitor is using the oldest trick in the book, and when they do, holding prices, doing promotional. They do have some significant result, or they manage to disrupt a little bit the competitive landscape. So my question would be, are you doing enough on affordability or pricing, or should you maybe reoxygenate the market, given that the beer volume growth seems to really struggle to come back, or anytime pricing doesn't come through, then we have an impact on volumes. So can you maybe expand a little bit on this comparison between the volume -- industry volume trends in soft drinks and in beer and also, should there be an effort to increase further affordability for the beer segment. Thank you.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Luca, thanks for the question. Let's talk a little bit about beer first. I think it's always important to see longer term; because then you see quarter-by-quarter, and we will have a specific this quarter in the third quarter, and I will repeat a price increase, as you can see in our net revenues per hectoliter. And competitors, at the same time discounting. It is not so common in the market. I mean not even in the Brazilian market, I mean, in the past. So -- and when you have a situation like that in one quarter, that the disposable income is still low, the volumes tend to suffer more, and on top of that, when you increase price per liter, contract in the industry always happens. So there are two effects. I mean, every time that any company increase prices, then the leading compact like ours increase price, have contract -- a little bit contract in the industry. And specifically that affects our volume. Not that we lose lots of share in this third quarter. That's not the case at all. But when this happens, a price increase and competitors putting price down is not so common. Not even in the Brazilian market.

What we have experienced in the past is that this is a strategy that does not work, because they do not build value in the longer term. So again I repeat, we have been here in Brazil for decades. We saw this before, driving volume or try to driving volume -- try to driving volume with short-term term price, this does not end well for any company in any industry. So we are not in this game. That's why I'm saying the strategy is working. Premiums growing double-digit. Innovation is growing big, big time. Yes, in the shorter term, the core brands this from more because they have a bigger price gap. But missing the longer deal, nine months that the number that I can say to you, not even see ahead of us, will still gain share. So even with this thing, that was very atypical this behavior of competitors, in terms of the -- after a price increase. We are gaining share in the year. I mean we are growing volumes 3.9%, and this is low single digit. So that shows the resilience of our business. The portfolio that's working. The innovation that's working. So even a very typical pricing behavior in the market in the third quarter, we are still gaining share in the year. So this is the beer the beer business.

For the NAB business, the industry is still low. We are gaining share a lot, so we can have the numbers here, but it's a low single-digit and the volumes in the third quarter was 3 something this -- I give the right number, 6.9% and in the nine months is 9.4%. So we're gaining share big time. So, the industry is low single digit. So this is the first point. Industry is very, very similar. And then I will say here, that the competitive environment in the NAB business is more rational. That's why it's reflected as well in the numbers. So that's what I could say to you regarding both business.

Q - Luca Cipiccia {BIO 6914452 <GO>}

If I can follow up just, in an environment in beer, where to your point, there has been a lot of promotional, lot of pricing strategy. Is it somewhat surprising that volumes are now benefiting more on aggregate for the industry as compared to again NAB, where in fact pricing is coming through and volumes are growing. So I struggle to reconcile maybe, the fact that the industry volumes struggle to come back, in spite of pricing or promotional activity has been quite elevated, on low comps.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Let's talk about the industry a little bit in Brazil first. The industry in the quarter is low single-digits. So we have this information. So with that, I mean we know that the way that we measure that specific industry, we have some delays, because it's the new some [ph] effort have delays in terms of timing, and we know as well, that one very important region in the country that the North and Northeast in terms of volatility of volume. The coverage of the news invented over the life [ph] is not so good there. So with that, what I could say that our volume in the North and Northeast is going ahead of the industry there. And the industry is there is not so represented in the whole industry of the country. So which means that, our performance compared to the industry may be -- could be a little bit better what the numbers says here. But the numbers are the numbers, and have been using (inaudible) improving the coverage a lot, it used to be 65%, today it is 80%, but not 100%. So based on our internal numbers probably, the industry would be little bit -- lower that the numbers that we show to you. But the the numbers in (inaudible) was around low single digit.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay, understood. Thank you. Thank you very much.

Operator

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

Q - Antonio Gonzalez {BIO 16846207 <GO>}

Bernardo and Fernando, thank you for taking my question. I am so sorry to come back to the same topic that everyone has asked so far. But just two quick follow-ups. The first one, you are highlighting extended headwinds into 4Q, right. But obviously, there's two months to be played yet. So I wanted to ask the status without commenting on your strategy, which I understand you cannot -- the status so far, are you still seeing a lot of discounting as we speak, or what leads you to give the comment into 4Q, having still two months ahead of all that. That's the first question and then the second question, I wanted to see if you can comment, you've shared with us in the previous quarters, what was the movement between mainstream and value right, 200 bps at the beginning of the year, the market migrating to mainstream then flattish in the second quarter. Can you share those trends with us for the third quarter?

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Hello. Antonio, Fernando here. So let me start by your last question. We saw decline in the first quarter on the value segment, and since then it has been stable, which means that probably year-on-year, they are a little bit better. But it is stable since the first quarter. On your question on the 4Q, we cannot comment on the current trade or give guidance, but what is fair to say is, once you increase prices, the market take a little bit of time to find its new equilibrium to go back to normal. Even the dynamics between kind of at the moment, (inaudible) increased prices, that's led to kind of -- a little bit ahead and to make sure they have the volume, then the volume goes down, takes a little bit for the price to go through for the final consumer. So the market takes a little bit of time. So two-three months to find its new equilibrium.

It is something that we've seen before. It's something that every time that we do, you are going to see that. Your share is going to suffer a little bit, but then again, this is something normal. What I think it's the -- I think what we can see in the highlights is that, even in a moment they increase prices, you see that the premium segment continued to perform very well. You see that the core, which none expects to suffer, it suffered, but the brand power is still quite strong. So I think -- sorry, I cannot comment too much more about going forward. But despite this kind of set back, if you could say so on the third quarter, we continue to be very excited with the strength of our portfolio.

And then Antonio, just, I mean, to share some tax -- again to reinforce. In the first half of the year, that we have more stable market environment. I could say our volume grew, I mean 7 plus, outperforming the industry. So good that the strategy is working, the volume is coming, share is coming, that you could answer in a quarter of a price increase, that was a typical, given all the promotional activities that we saw in the market. But we entered in this quarter in a very strong -- with a very strong base, in terms of share and volume. In a way that we continue to gain share in year-to-date numbers, and in a way that our volume is 2.9% above last year, even with this very typical third quarter. So the fundamentals of the business are there. That's what I could -- I mean, talk about the past, regarding the year-to-date numbers.

Q - Antonio Gonzalez {BIO 16846207 <GO>}

That's clear. And if I may, just very quickly follow up on a different topic. Is it possible to comment -- and I presume it depends ultimately on your awards, proposal and approvals. But dividends so far, would you expect more of a bullet payment at the end of the year? As opposed to installments, which has been the case historically obviously. Anything that you can comment on that front?

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Hi Antonio, Fernando here. On a normal year, normally we would have already been paying some dividends throughout the year. But in Brazil, IOC is very important, kind of the way you pay it, and this year, given hyperinflation in Argentina and the impact that it had in our balance sheet accounts, it's much more optimal, if you leave it later for each of the IOC. So the idea is for us, as always, from payout policy to payout over the longer run, all our free cash flow. But more than that, I cannot comment, because as we mentioned well, it needs to be approved by the Board and it should be disclosed in a proper way. But the long run, it doesn't change our approach. We always like to pay out all the free cash flow all the time.

Q - Antonio Gonzalez {BIO 16846207 <GO>}

That's very clear. Thank you.

Operator

The next question is from Robert Ottenstein with Evercore ISI. Please go ahead.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Terrific. Let me try to change the topic slightly. Two questions, one, can you give us a little bit more sense of the weakness in Canada, why the industry should be so weak? I don't think the weather was too bad, tied to that, your plans on CBD roll out there. So that's the first question. And then the second one, are you seeing any signs in Brazil that taxes, either at the national or state level will go up. I know they have to be all done by the end of the year. We're two months or so away. So those would be the two key points I'd like to hear about. Thank you.

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Okay Robert, Fernando here. Thanks for the question. On your last question, so, no signs no news on that front. Too early to comment on taxes, but no news on that front. If there is anything I can say about it.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

On your first question on Canada. I think we saw a little bit of softness from a market share standpoint, no issues there. I think that we are in a good shape. But the overall industry was quite weak. I think weather was not terrible, but it was not great either. But overall, the industry as a whole, we can say was soft.

On your second question on cannabis, I think we are, we announced that we are -- that we will be launching a product, but only with CBD, and I think the timing is -- we need to wait for it to be properly regulated to be available from the market. At the end of the day, Fluence, which is the company that we have a JV kind of, that they will launch the product. We intend to lead the cannabis industry in Canada, when it comes to responsible marketing of its products, ensure that it's always focused on legal age consumers, and fall in compliance with Health Canada and provincial regulators. We intend to have the product for CH1 [ph] consumers, as early as December 2019. But of course, this is subject to the regulatory timelines implemented by the Health Canada and provincial regulators.

So I think we were excited, but it is too early to make any comment and even the timing, I cannot be 100% precise. But could be as early as December this year.

Q - Robert Ottenstein {BIO 1498660 <GO>}

And just on that, do you currently have the necessary licenses at your facility that you have or your partner have? Is it at the current -- the necessary license to produce products, and whatever regulatory approvals you need at this point?

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

This is kind of -- we want to make sure that when the time is right, December '19, we have all the licenses. Without it, of course, we'll never the be able to sell it. Canada is a very regulated market. So the moment that we came out of the product in the market, you can make sure that we have all the necessary approvals and licenses.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Okay. But do you have them now?

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Right now, I cannot comment on that, because it is too -- the regulation was already approved it, but even for you to have your product validated, it takes a while in Canada. It's not something that is kind of the regulation is approved, and everybody can sell. I think -- I would be surprised if anyone would be in a position to sell right now. I think the earlier anyone can be in a position, is probably the (inaudible).

Q - Robert Ottenstein {BIO 1498660 <GO>}

Thank you very much.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thanks, Robert.

Operator

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

Q - Thiago Duarte {BIO 16541921 <GO>}

Hi, good afternoon everybody. Bernardo, Fernando. I have actually two follow-ups on previous questions and answers. The first one, Fernando, you mentioned in the previous question on the performance of the value segment relative to the mainstream segment. You mentioned that the value segment lost ground in the first quarter of the year, and that has been stable ever since. So just want to confirm that's the case, because that would imply that the value segment, my understanding, lost share versus the mainstream segment on a year-over-year basis versus the third quarter last year. So just want to make sure.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Correct.

Q - Thiago Duarte {BIO 16541921 <GO>}

Yeah. Okay, perfect. Thank you. So, and the second follow-up is again back to the statement that you guys had in your earnings release, where you say that the headwinds -- some of the headwinds specific for the third quarter, you see that carrying over into the fourth quarter. I just -- It's still not clear to me where do you see those coming from in the sense that you can anticipate it. So just want to make sure. I mean the cost environment should look better in the fourth quarter as per your guidance since the beginning of the year. The industry is growing, as per what -- seeing the reports that have you guys put. So I don't -- it doesn't seem to be an industry issue and an overall demand issue. Even though the industry is not growing much, it seems to be growing over a reasonable comparison base. So just want to make sure, are you guys anticipating that the competition is going to remain promotional throughout the rest of the fourth quarter, or just whatever you guys could add on that? Just if you could be a little bit more specific, would be great? And finally, my question is on the performance of the smart affordability initiatives in the Northeast of Brazil. It's clear that those segments are doing very well since the launches started last year. So just wanted to hear a little bit more on how incremental those volumes have been to your portfolio? And/or how much has there been some cannibalization between those new brands that you guys introduced in certain states, relative to your mainstream portfolio and relative to the competition portfolio. Just want to see how those brand shifts are taking place in the Northeast? Thank you.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

Hi Thiago. Sorry to disappoint you, but we cannot give much more details on Q4 or discuss kind of current trades. I think you flag it right kind of -- on the cost side, we gave the guidance and we're not changing the guidance. So there shouldn't be too much surprise in there. What was a little bit of a new news, and kind of is actually third quarter and the whole competitive environment, coupled with the macro environment, that get a little bit worse in Brazil. So I think these are the two main reasons we are kind of being a little bit more cautious going into 4Q. But on the cost side, as you said, we gave our guidance and we're not changing the guidance. So there should be no surprises in there.

And Thiago, link it to the brands for them, the smart affordability brands that we launched -- have launched in the Northeast. They're very incremental. They play in a segment -- that's a a segment that is big, that we are -- (inaudible) big time. So they are helping us in those states to gain share in the value segment.

And link it to this specifically, I mean, again I will repeat, because I seem to have a slightly different view. Specifically this quarter and the volume and the share. In every market that we have been operating, that we have problems with disposable income. Any markets I mean that are being other markets, not only Brazil, I mean many-many countries that I saw, that I lived. When you increase prices, the competition has this kind of promotion activity that we had here. Usually, the facts in your volume -- usually they are strong. It's very, very strong. But the good news, and then that shows that our strategy is working. Our innovations are working, they are incremental of our business. That I mean we grew 7.2% volume the first half of the year. And we are entering this price increase, that was very typical -- in a very strong mode and we end the three quarters, gaining share with 3.9% volume both this year. I mean, this shows how resilient this portfolio is becoming; because maybe in other countries, in other -- I mean we would lose share. That's not the case. So the fact that it continues in the year-to-date gain share and outperform the industry in a meaningful way, and talk about the year-to-date of 3.9%, this is low single digit, which means that the portfolio is resilient. That innovation is working. And we see that kind of the shorter term promotional activity does not create value to anyone, who have been here for decades. As we said, it's a shorter term to try to drive volume. I mean we started before and many, many times, it didn't work. So we are here to build brands to gain share. Building brands and a sustainable business and we are happy with the performance of a 3.9% of volume in the first nine months, against the industry, that's a low single digit. Despite of this third quarter, very typical at whatever pricing behavior in the market. So very cost in the box strategy and in the performance of our portfolio in Brazil.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Bernardo Paiva for any closing remarks.

A - Bernardo Pinto Paiva {BIO 7186008 <GO>}

So before we finish our call, I'd like to close saying that we are confident again as I said, to try evolving in a consistent way with our strategic platforms. Not only Brazil, but in every country that we operating Ambev. Despite the short-term volatility in the region, that you know in many countries like -- we have been operating here in those countries for many, many times. We will continue to focus on the long run, and sustainable value creation. Thank you. Have a great day. Enjoy the rest of your day. Thank you again.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.