Q2 2020 Earnings Call

Company Participants

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

Other Participants

- Alan Alanis
- Isabella Simonato
- Joo Soares
- Juval Suarez
- Leandro Fontanesi
- Lucas Ferreira
- Marcella Recchia
- Robert Ottenstein
- Thiago Duarte

Presentation

Operator

Good morning, and thank you for waiting. We would like to welcome everyone to Ambev's Second Quarter 2020 Results Conference Call.

Today with us, we have Mr.Jean Jereissati, CEO for Ambev, and Mr.Lucas Lira, CFO and Investor Relations Officer.

As a reminder, our 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 listen-only mode during the company's presentation. 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 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 that general economic conditions, industry conditions and other operating factors could also affect the future results of Ambev, and could cause results to differ materially from those expressed in such forward-looking statements.

I would also like to remind everyone that as usual the percentage changes that will be discussed during today's call are both organic and normalized in nature. And unless otherwise stated percentage changes refer to comparisons with the second quarter 2019 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'll turn the conference over to Mr.Jean Jereissati. You may begin your conference.

Jean Jereissati Neto {BIO 20161989 <GO>}

Thank you. Hello, everyone. Thank you for joining our call. Before I share with you an overview of our business during the second quarter and Lucas cover the highlights of our financial performance, I would like to deeply thank all those who are helping our societies doing the COVID-19 pandemic. Those who are fighting in the front line on a daily basis are the real heroes. And are making a real difference as the world battles pandemic. Thank you very much.

Our second quarter was certainly much very marked by the pandemic. But also by our team's incredible collective and positive reaction to it. Last quarter, I mentioned the main factors that I believe would make the difference in navigating the crisis were being the leaner and most efficient player in the market; having the highest reach in terms of distribution network built over the last 20 years; mitigating the rises with a solid cash position; and finally, leveraging our technological and innovation platforms that we have been investing behind for a while.

In what was probably the most difficult quarter of our history, we demonstrated the strength of our business, the resilience and creativity of our people, and our ability to impact the world in a positive way. In almost all the countries in which we operate, we ended the quarter better than we started.

COVID-19 brought new challenges to our business and the ecosystem of our industry. Everybody is reinventing themselves. Consumers are changing their habits, demanding more convenience and new ways of entertainment. And the on-trade channel is rethinking itself.

The good news is that we have been setting up the company to respond quickly to these changes, and we are starting to see the benefits of this new mindset and strategy. From April to June, we saw a sequential improvement in consolidated volumes. April volumes declined 27% year-over-year, May decline in 7%, and June actually grew 5%. Despite this positive trend, there is still plenty of uncertainty in the market.

Things can change rather quickly and profitability was and should continue to be a challenge as our great socializing occasions are and will continue to be impacted moving forward. Restrictions are still very fluid and macro and currencies remain volatile.

In terms of openings, Bolivia, Dominican Republic and Panama were hit the hardest. These countries started the quarter with more severe restrictions on vehicle circulation and alcohol sales, and adopting an on-and-off trade opening hours.

As the quarter progressed, such restrictions were gradually eased, but there are still some in place as we speak. Chile and Paraguay suffered less, because our volumes are heavily weighted towards the Austria channel. Nonetheless, a challenging macro environment has led to a slower recovery in Argentina.

In Brazil, where the on-trade channel played an important role, restrictions varied between regions with big cities and urban centers being more affected. We saw a gradual improvement as part of the on-trade start to adapt, operating with deliveries and takeaways, and cities started to reopen. These small mom-and-pops stores gained relevance as customers choose for local consumption to avoid longer time journeys partially offsetting the impact on the on-trade channel.

Canada, despite an industry decline, our volumes benefited from the strong performance of our premium core plus and beyond beer portfolio. As I have mentioned before, we have a strategy built on three pillars. First, we really want to work as an ecosystem. We are reframing our purpose of bringing people together for a better world, and we have mobilized ourselves by donating our capabilities competencies in the time of our teams to help solving urgent social challenges.

We were recognized by the United Nations with the solidarity award. This award is given to impactful work that individuals and organizations have been taking to support communities as we navigate the pandemic. All this, because we have been able to move fast to respond to these social needs. Given a more creative and agile mindset, we could answer the demands of the communities we're part of.

In Brazil, we also took part of Movimento Ns, a coalition of end consumer goods companies that will help approximately 300,000 POCs to reopen with a total of BRL370 million, impacting indirectly more than 3 million people.

Besides all this, it was a moment for us to renew the pact we have with our customers, suppliers and the community. We achieved the all-time high customer satisfaction measured by the NPS metric, doubling our result versus last year for the same period.

Second, innovation as a mindset. As markets mature, consumers demand more options to the different occasions, and we are transforming our business to respond faster to demands like that and shifts in market trends.

As a result of this transformation in Brazil, for example, our market share of products launched in the past three years now over indexd our total market share. What is driving these results are, a step-up consumer centricity capabilities; flexibility to create unique recipes with exclusive ingredients; a pilot testing approach; the creation of an ecosystem that benefits clients, consumers, and suppliers with superior value; and the logic of creating demand ahead of production. Following this formula, we developed Brahma Duplo Malte.

We managed to deliver in three months the volumes we originally planned to delivere by the year two of our business plan. The brand took advantage of the live stream phenomenon. Incrementality has been higher than expected and margins are healthy for the company. There is still much to do, but we are off to a great start.

The live streams were a groundbreaking innovation in media and entertainment, where there was fear, we brought joy. This quarter, we promoted almost 400 live streams with more than 0.5 billion views. Brands that engaged in lives had an exponential growth on social media. Also we learned that before and during the lives are excellent opportunities for us to engage with consumers through our B2C platforms.

Third pillar of our strategy, business transformation enabled by technology. Where there were movement restrictions, we offered convenience. Our direct delivery systems at consumers' home have grown exponentially. Our platform such as Ze Delivery in Brazil to Cerveza in Dominican Republic and Appbar in Argentina, are gaining significant traction as well as our partnership with third-party home delivery platforms.

This quarter, Ze Delivery registered 5.5 million deliveries, 3.6x more than the full year of 2019. Another example is the proprietary B2B platform that we call Bees, that has been piloted in the Dominican Republic and that we have started to roll it out in other markets.

In Dominican Republic, we already have the majority of our revenues generated through Bees. And also we see an opportunity that we could incorporate different segments, such as food, dairy products, wine and hard liquors. Although April seems to have been the low point, we will continue to see uncertainty in the market going forward.

We are here for the long term, and are confident in our ability to bounce back. We will keep focusing on our people, being there for our consumers and clients, continue to invest towards a winning and fresher portfolio, serving our communities and collaborating with our wholesalers, suppliers, commercial partners and governments.

Finally, I would like to thank my team with all my heart. This was the most challenging quarter of our history, and we were only able to go through it and achieve these results given the amazing people that always have been the foundation of our company.

So thank you all. And let me hand over this to Lucas.

Lucas Machado Lira {BIO 21526003 <GO>}

Thank youa, Jean. Good morning, and good afternoon, everyone. Going into Q2. We anticipated a very tough quarter because of the impact of COVID-19 and that's exactly what happened. The combination of steep volume decline, which led to operational deleverage and a significant change in channel, package and brand mix, had a big effect on our EBITDA performance and profitability.

And although the team managed to find considerable savings in terms of costs and expenses, simply put that was just not enough to offset the COVID headwinds. Going quickly over our business units. Brazil beer's financial performance was actually better than we originally anticipated at the start of the quarter, thanks primarily to volume trends. This was also the case for Canada.

CAC had a tougher time terms of top-line, but the team did a great job to minimize the impact on our profitability. And LAS and NAB Brasil, were the two divisions that struggled the most in terms of financial performance. LAS because of Argentina macro and Bolivia COVID-related restrictions, and NAB Brazil, thanks to volume decline and higher costs.

Having EBITDA declined 33%, EBITDA margin contract nearly 1,000 basis points and net income declined roughly 50%, thanks mostly to the EBITDA decline and that finance results is not something that we're happy about. But we're facing the brutal facts head-on, and we're going to keep working harder and harder to improve our results consistently going forward.

But not everything is bad news though. For instance, we managed to protect our liquidity, while working with our suppliers, wholesalers and customers to weather the storm. What was already a robust liquidity profile just got stronger as we quickly accessed credit markets in select countries to enhance our liquidity position. And this has made a difference in terms of our ability to be a reliable partner for these stakeholders.

Our wholesalers and suppliers managed to adapt fairly well to the new reality. And although the trade has struggled more, we've been working with them on several initiatives to support their recovery. Also another thing to mention is that we quickly revisited our cost structure and expenses. Initiatives like revisiting trade spend given changes in channel mix, renegotiating commercial contracts, and revisiting the calendarization of our spend, outsourcing less and leveraging more internal capabilities like our draft line content creation team, and significantly reducing discretionary expenses all had a positive impact overall.

We always strive to be as lean and nimble as possible, and frankly we think this is going to be a must going forward, because we simply don't know exactly how long COVID-19 will be around and how things will evolve.

And finally, we continue to invest in the future. We preserved key sales and marketing investment behind the renovation of our portfolio and behind innovation, and we will continue to do so going forward. And even though we reviewed our CapEx plans and raised the bar to focus on the must-haves, we still invested a significant amount of money behind the safety of our people, the quality of our products, commercial priorities and big bets for the future, and technology-related initiatives.

Several good examples here that I think are worth mentioning, (Skol Pure Malt), we kept that investment. Cap production and filling capacity are going to be key for the future. Returnable glass bottles for innovation, brewery of the future B2B and B2C platforms were also preserved.

And just to wrap up looking ahead, one of the biggest challenges that we're going to face will be on how to improve our profitability, no doubt. This won't happen overnight and volume growth and channel package, and brand mix are going to be decisive, which is precisely why we're going to be focusing so much on that going forward.

And yes, things will continue to be volatile. We will continue to face some well-known headwinds at this effect, but we will continue to focus on the levers we control to support in a very disciplined way the commercial agenda and manage the business targeting consistent improvement of our financial performance over time.

With that, let's turn it over to Q&A. Thank you very much.

Questions And Answers

Operator

Question And Answer

We will now begin the question-and-answer session. (Operator Instructions). Our first question is from Thiago Duarte of BTG. Please go ahead.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. Hello, everybody, thanks for taking my question. I have two questions actually. The first one is related to box per hectoliter increase in Brazil beer. You guys mentioned in the release the impact of FX translation as well as mix in channels. So just wondering if you could elaborate a little bit on the impacts of each one of those in terms of COGS unitary COGS and Brazil beer. And the second one if you could you mentioned that you believe that you're up through the market year-over-year in the quarter in Brazil beer itself. Just wondering if you could elaborate in terms of the different segments in the market, how you perform relative to the competition in premium and mainstream specifically? It was a little bit of a surprise to see the drop in premium, how on premise seems to be so important there. So just to understand the magnitude of the variations in each of these categories in your volumes. Thank you.

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

Okay. So thank you very much for the question Duarte. So I'll get the volumes and the market share first, and then Lucas can talk about the COGS. Okay. So as you see in our report, we saw our recovery on volumes sequentially from April in Brazil and this is what a mix of things that we have seen in the market. It is pretty much the resilience of our category. What we saw, in terms of occasions it is really that, this socialized out of home occasion was -- has been compensated by that relax at home occasion. So this is something that is going on in the market that normally happens in more mature markets and it was the strength was accelerated here in Brazil. And I think we were the first ones really to pick this journey and accelerated and bettered it. So this was important.

Not all the countries we saw this transition of occasions as the new occasions popping up. We saw that very clear here in Brazil weekdays improving performance. Consumers drinking at home on Mondays, Tuesdays, Wednesdays. In the end I really believe that, we were very happy in terms of resource allocation following the consumer in really going in that direction. We saw -- some reduction on the binge drinking. Okay. So when we do research with consumers and so that was good news for the industry overall.

Having said that, our performance we were with this mindset of really following the consumer, our channel strategy was very agile and we were very happy to really migrate all the resources that we have for moms and pops that was the channel that's growing most during the pandemic and we have a great reach to get this thing, right and because consumers are really looking for purchase in shorter journeys. So this channel is the strong one and we have been doing well in it.

The other one is really the mall format -- off-trade that are really picking up and we really moved completely resource allocation team people to really support these two channels and I think that was a very happy strategy. On top of that, we work with -- in the pipeline that we have been pilot since Q1 in the carnival -- is we really roll it out in the middle of the pandemic that was Brahma -- and we saw a lot of trade up we saw a lot of interests we saw a lot of penetration of this new product. So this was really something that surprised us on the outside part of the volumes a lot of incrementality and a good margin because we've really positioned on the corporate segment.

So this was part of our planning and made us outperform our best estimates of the industry pretty much in all channels in the mall format Moms and Pops and big formats of -- and what we are seeing true it is that our premium -- we know that premium is a long-term trend and our global brands grew double digits on this moment. So we are happy with this type of growth during the pandemic. It's true that the VIP entre, draft beer (Circuito Brahma), Original these are the types of brands that are very related for high-end of urban centers they are suffering a little bit more. But we got it right with the global brands. And what we are seeing, it is that we are seeing no material trade down on the beer category.

What is really surprising us is the resilience of the core, is really something that we have been renovating our portfolio for a while now. So you know that we launched Skol Pure Malt, that's performing well. We repositioned Bohemia for the core segment for the quarter and we launched Brahma duplo Malte. So this combined strategy with our core brands is something that has really surprised us on total because of the resilience of the core. So the core is really with some excitement and with some resilience during the crisis, okay? So I think that's pretty much it about share. So we are happy with our global brand volumes. The core is more resilient -- can you hear me?

Q - Thiago Duarte {BIO 16541921 <GO>}

Yes, I'm still here.

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

So the core is more resilient than we expected. So we are excited about it. There are no material trade down and our performance on the channels, the smaller ones Moms-and-Pops and small formats are really -- they are really gaining traction over there.

A - Lucas Machado Lira {BIO 21526003 <GO>}

Hi Thiago, Lucas here. So with respect to your question on COGS per hectoliter I would say there were three main impacts, okay? The first one which was anticipated given our hedging strategy was really the headwinds stemming from the devaluation of the Real year-over-year. And so that was a headwind coming into the quarter. And then the other two are more COVID-related so to speak. The first one being volume deleverage in April, right? So with such a steep decline in volumes, it's just very difficult to offset that. And having less volume to offset fixed costs took a toll okay, particularly in April. And then the third one which was the biggest impact overall, was really mix, okay, due to the swing the massive shift that we saw in a very short period of time between one way packaging and RGB, right? And we shared some numbers in the release.

Historically, one way cans -- are not the majority of our volumes. And during the quarter, they became the majority of our volumes. With the off-premise where one way tends to over index the off-premise representing 70%, 7-0, of our volumes in the quarter, right? So such a swing in channel mix have -- has the severe impact on our COGS per hectoliter in the quarter because the cost for cans are higher than the cost per RGB, where you have the returnability element to it, okay? So biggest impact mix due to the package swing. Then second effects and third operational deleverage, mainly in April.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you. And just a follow up on that Lucas, how that links to this sort of cautionary that you guys made on profitability going forward. It this mainly the reason? We've talked about specialty mix, I believe, channel as well but specially mix. Would that make sense to assume that is related?

A - Lucas Machado Lira {BIO 21526003 <GO>}

Yes. I think when you refer to cautionary statement in the prepared remarks am I right to assume kind of the towards the end of my part where I covered a bit kind of what we're seeing going forward the challenges, is that what you're referring to?

Q - Thiago Duarte {BIO 16541921 <GO>}

Yes.

A - Lucas Machado Lira {BIO 21526003 <GO>}

Okay. Yes. So I think the -- where that "caution" is coming from, right? I think it's more an acknowledgement of the world we are living in. Okay, so right things have changed drastically since last year. Things are much more fluid right things are changing -- can change really fast. And so I think it's an acknowledgement of that number one. Number two again, back to our hedging policy, right? If you track, how the main currencies that impact us, right vis-a-vis the dollar are trending, right, that's likely to be a relevant headwind into next year. So we think it's worth flagging that to the market sooner rather than later because it's reality. We need to be upfront about it, right?

And three on the mix side, ye, that's going to be a challenge going forward, okay? So historically, we've seen, right, the Brazilian market to be more on-premise RGB weighed than off-premise one way weighed. That inverted in the quarter and we have a road ahead of us, right to try and bring that back, bring the pendulum back to RGB and the on- premise as the country reopens right as consumers make their way back to the on-premise. But it's going to be a process, right? As I said in my opening remarks, it's not going to happen overnight, right? There's still a lot of uncertainty out there and we have to also keep an eye on how COVID-19 is going to develop.

Q - Thiago Duarte {BIO 16541921 <GO>}

Yes, that's very clear thank you Lucas and thank you Jean for detailed answers. Thank you.

Operator

The next question is from Rob Ottenstein of Evercore, please go ahead.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. I'm just wondering, if you could give us a little bit more about the Ze delivery. Obviously, it's doing extremely well. Are you -- what percentage of the country is covered now in terms of May, June, July? Roughly what percentage of your sales is through this channel and where do you think that can go? And my understanding is that the Ze delivery does encompass competitors' brands as well. In terms of actual Ze delivery orders, what is your market share. Thank you.

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

Thank you very much, Robert. Yes, so Ze delivery let's talk about Ze delivery. So Ze delivery it is a project that we have been for five years right now working on it. And so we get the right mindset and the right platform for us really to grow exponentially during this crisis. So it's part of our direct-to-consumer strategy. Is a way that we see in the future where we can really have this occasion in home occasion relaxation really more efficient from our side because we go direct-to-consumers. So we understand their insight, so this is really a way that we can believe, that we will upgrade this occasion and get much more -- the location, much more efficient that we have like we have a very efficient occasion on socializing on bars, okay? So it is a big bet for us.

So having said that so we made 5.5 million orders in Q2. Last year, it's 3 point -- 3.5 times above the full year of 2019. So it's really accelerated. We were able to add 100 new cities doing the pandemic during Q2. So now we are with 142 cities in Brazil most of the states, we believe that we are covering pretty much 60% of the Brazilian population -- 40% of the Brazilian population, sorry. And we're going to head into 60% of the Brazilian population by the end of the year. It is still not that big in terms of volumes. We are ramping up, it's big time. I mentioned at some point in time that our long-term view is really to have 10% of our net revenue covered by DTC strategies not just the delivery but the full package in the long term. And what I can say more is that yes, we are treating the delivery as a standalone, at very consumer centric approach for the delivery. And because of that we are populating that with different products sometimes products from the competition different categories like wines and some type of foods. It is really target on this occasion.

I'm at home I need to have to watch TV have some party I need cold beer with some snacks very fast. So we're going to do everything that makes sense for the occasion on a consumer centric way. But our market share is very high, very high, more than 95% today as I just mentioned, it's very high. But we are really thinking the delivery as a consumer centric approach and we're going to really resolve all the demands that our consumers have.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. That's super. And can you also just mention, how the Beck's brand is doing this year.

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

Yes. So Beck's is really -- so Beck's is small. Now we have like one year launch at this moment. We are very excited about it. It is really growing triple, four digits, but it's up from a very small base. And we have been working on the positioning working on the new packs. Now we have long necks cans and 600-ml bottles. And last month was the month that we launched the new market campaign that will position the Beck's brand here in Brazil. We are focusing on creating brand equity and the correct positioning with the right time patience on us. This quarter was a quarter that we made the first launch with a DJ a famous DJ in Brazil Vintage Culture, a live stream. It became a global trend topic on Twitter the launch that we had 1.6 million people looking at the launch and very premium, very, very sophisticated. So doing very well, patience, marketing dollars ahead of volumes. And really what we want to really create is this the coolest brand in the market.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Terrific. Thank you very much.

Operator

The next question is from Alan Alanis of Santander, please go ahead.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you so much. Hi Jean, Hi Lucas thank you so much for taking my question really appreciate it I hope everyone around you is well. My question has to do with this premium segment. Jean you just mentioned a moment ago that saw it growing double-digit during the quarter. And is that the case, that means that the other rest of the portfolio, some more of mid-single-digit declines if I'm doing the math, right. My specific question is if we continue to see this premiumization what should we be expecting in terms of profitability? Because these brands are much more expensive than the rest of the portfolio, yet when we saw the big premiumization movement in '16, '17 and '18 we didn't seem to have a contribution to margin? And will this be reversed? Or we should just continue to -- that this will be the case? That would be my first question. Thank you.

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

So first of all, so yes. So first of all what is important to know is that we saw no material trade down during this pandemic, okay? So -- and what surprised us was the resilience of the core? So that was something that we have been talking in the past calls that it was -- try to find the right mix of brands where affordability, affordable brands were growing high-end were growing to, and that at some point in time, these things would net and you could not see the profitability of the high end because we were growing different segments in different speeds. And it was hard to understand how high-end is accretive and has good margins for the future.

So what -- the moment that we are leaving is good because we are seeing the core resilience. And then more and more we're going to begin to see the high-end bringing its additional performance, that being accretive for the company. When you are too much on the affordable than the premium, this thing generally they get met. When the core has resilience, then you can begin to see the high-end. The high end, we are happy with the performance of the high-end. So that's -- so the category in Brazil beer category has been resilient, what is very good. Consumers are on fire talking about innovation new products, recipes concepts meaning. It's amazing how the Brazilian consumer is open to talk and learn more about beer. And this is where -- this is why the high-end has been growing for a while. And we believe that it will continue.

We are very happy with the performance of our brands in general in terms of consumer sentiment consumer pool. We are seeing more and more Stella with a good performance. Budweiser doing well. Beck's coming in. Corona are doing very well, even though with all this -- this pandemic into May, and all the thing Corona doing very well in terms of consumer perspective. So we'll -- so global brands grew double digits. And we are happy, it's part of our plan. And you're going -- if the quarter is resilient, we are going to begin to see so this will begin to be more accretive net-net.

Q - Alan Alanis {BIO 15998010 <GO>}

No that's very clear Jean. Thank you so much. I mean, we look forward to seeing that resurgence of core. And as you said, once we have the resurgence of core, we should see the overall contribution expanding of the premium. My next question really quickly regarding capital structure. I guess it's more for Lucas, you have $2 billion of net cash in your capital structure. What is the ideal capital structure what are the idea of level of cash? And what is the -- how are you thinking in terms of the priorities of deploying that cash beyond interest on capital and dividends? If there's some change in your thinking around that. Thank you so much.

A - Lucas Machado Lira {BIO 21526003 <GO>}

Okay. Hi Alan, are you in terms of capital structure and our cash position I think the first thing is ever since the crisis right hit I think we sought, right the benefits of having such a robust cash position. That gave us a lot of peace of mind, that gave our team a lot of peace of mind, that gave our wholesalers a lot of peace of mind clients, customers, suppliers a lot of peace of mind right that we would continue to be, right, a very reliable kind of partner and be there and kind of weather the storm, right? So I think in hindsight it was helpful to enter the crisis with the cash position that we entered. That's number one.

Number two, we've given all the uncertainty that we were seeing at the beginning of the crisis we decided to kind of have an additional cushion in terms of liquidity. Especially in some markets where we didn't have -- we didn't enjoy the liquidity position that we enjoyed in Brazil for instance, and so we decided to do some transactions to and access credit markets, either kind of direct bank debt or issuing securities to reinforce our cash position, okay? So why am I saying these two things? It's because going forward, right the world is not out of the woods yet, when it comes to COVID-19. We're certainly not out of the woods yet when it comes to COVID-19. So we believe there is merit, right in being more conservative if you will, in terms of our cash position going forward, okay?

Obviously, we're looking at how things progress. We're working with a multitude of scenarios going forward. And we will -- as the months go by as the quarters go by we will look at the conditions of temperature and pressure, right and analyze what's the optimal capital structure in the new normal that is going to shape up hopefully sooner rather than later, okay? But conceptually right the way we think about our capital structure and the way we think about our allocation of cash hasn't changed, okay? So we're going to continue to deploy money to reinvest in the organic growth of our business, okay? We still see plenty of opportunity out there.

Number two, we're going to still look for M&A opportunities in beer or outside beer. We've been investing more and more in alcoholic beverages outside of beer. We've been investing more in non-alcoholic beverages as well. So we still think there's opportunity to be opportunistic when it comes to M&A and try to create value through that as well. And then to the extent right, we don't find these opportunities we will be returning excess cash to shareholders, okay, in the form of IOC primarily given the tax benefits that come with IOC. So the desire to continue to maximize IOC hasn't changed and will continue to be kind of at the forefront of how we think of payout in particular. And then once IOC is maximized we will look at additional opportunities to return cash to shareholders in the form of dividend buybacks. But that's going to be more of a judgment call to be discussed between management and the board at the right time, right?

I mean we follow this constantly, and we have these discussions. But let's wait towards the end of the year to when we have a better picture of how the year's going to end. We see what 2021 may look like see where we stand in terms of our cash generation, our plan for the future and we will make a decision, okay?

Q - Alan Alanis {BIO 15998010 <GO>}

Got it. Now that's pretty clear. Thank you so much, thank you Jean. Thank you Lucas. Appreciate it.

Operator

The next question is from Lucas Ferreira of JP Morgan. Please go ahead.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Good afternoon, Jean, and Lucas and good afternoon everybody. Thanks for taking my question. I have two questions. The first one is to understand if you have already some flavor some views on the reopening of the on-premise channel, which is very important for you. So how NOS has been helping? How has been the sort of traffic? And how many of these places if your clients are coming back if it's coming in line with your expectations, maybe above your expectations, how to think about the reopening of the on-premise channel in this kind of first two months. And the second question is to understand a bit better also the core plus segment, which seems to be a bright spot right now for you guys with Duplo Malte. And so my question is, how big this segment could be how fast it's growing? And what sort of innovation are you guys also kind of working on for this segment. Is there a space for maybe another brand or to expand geographically? Can you discuss a little bit the core plus and sort of the value the core plus offers to the consumers. Thank you.

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

Okay. So let me tackle first the reopening. So more and more is getting cleared clear for us that everybody is reinventing the bars mainly when we talk about not the high-end urban centers' bars, but really talk average bar in Brazil is really trying to maintain open is really reopen fast. But really changing the way it's doing business. So like changing the packaging and then with this coming to collect deliveries and take away. So the bars are getting the average bar of Brazil is getting more close to a mom-and-pop, so we are working on some occasions like that.

So we are seeing for now like if you get total Brazilian bars maybe something like 15% of the bars are really, really closed but reopening. But with the volumes per box still is small. We know that government is really still with some plans to help the reopenings. So we believe more it's going to be that -- the main issue that we're going to have is pretty much about the occasion and not about the channel. We believe that the channel -- in the speed that is going with the transformation and with some help of the government we believe that the channel will get it right in the future.

The issue is pretty much about the occasions about consumers coming, it's about the protocols. It's about the number of people in bars restricted. So this occasion I think it will take a little bit more time to get it back to get it right. And so that's why it's important that we are really figuring out how to help to create new occasions, accelerate to be on new occasions, like the weekday, relaxation at home that we have seen as a trend in Brazil that we knew that it happens in mature markets, but it really accelerated it for us. So this is where -- this is how we are dealing with it, okay?

So the second thing is about the core plus. So I came from China, the core plus segment there is kind of 20% of the market. We see that it's an important market in the U.S. too. So all the markets they have this well-established core plus segment that can go from 10 to 20 something. In Brazil, we don't have nothing established there. So even though the -- so we have the premium, and then we have the core, some brands that came in the past tried to position that, but quickly for the core segment. So there is a space there that we really want to that we really want to focus and develop. So the brand that we started that right, it was Brahma Duplo Malte. We repositioned Bohemia, too, to play there. But we -- even though with Brahma Duplo Matle with a price positioning ahead of Bohemia. So Bohemia is playing a role on that and we believe that we still can have one or two brands on that opportunity, but still study. So Brahma Duplo Malte, that is our main initiative right now on that. It's already in all the states of Brazil. It's something that is already growing very fast, acquiring new consumers good repurchase. So it's really something that we are happy with it.

It's part of our innovation strategy to populate and to find ways to make the core plus, right. We still believe there is an avenue of health and wellness in the core plus that we can tackle. So we are thinking of it, talking with consumers understand expectations on that. But that's also the core plus and the innovation is really (a bet) that we have. We just started Brahma Duplo Malte doing very well but more to come.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you so much, Jean.

Operator

The next question is from Marcella Recchia of Credit Suisse. Please go ahead.

Q - Marcella Recchia {BIO 21226398 <GO>}

Hi, Lucas. Thank you for having my question. Basically, I have two quick questions. The first one is about the trends. Basically you have seen larger retailers signaling solid trends in July, largely in line with June. So could you give us some color on July trading for Brazil beer if this is also the case for you guys? And secondly, with the likelihood of having the carnival postponed towards second Q could you elaborate how do you see such event with regard to your activation strategy and beer sales performance? Thank you very much.

A - Lucas Machado Lira {BIO 21526003 <GO>}

So let me try to get your question right again. So you are asking about margins. We couldn't hear you that well...

Q - Marcella Recchia {BIO 21226398 <GO>}

Not really. No, not really. The first question was about if you can give you some color.

A - Lucas Machado Lira {BIO 21526003 <GO>}

Can you make again your question?

Q - Marcella Recchia {BIO 21226398 <GO>}

Sure. The first question is about a trading update on July. Basically, we have seen larger retailers that are signaling solid trends in the month of July largely in line with the trend seen in June. So if you can give us some update on what you saw during July it would be very helpful. And the second question would be the carnival. Is the likelihood of having the event postponed toward the second Q next year. Could you elaborate how do you see such event with regards to your activation strategy and beer sales performance.

A - Lucas Machado Lira {BIO 21526003 <GO>}

Yes. So first of all, so we -- I will get back to our performance on June -- on May, June and July that we have been (as some best), really recovering and went to the positive territory on July -- on June. And then we -- in the end of July, we will not comment during this quarter the performance of July. So this is something that we decided internally here not to give any guidance on that. So this is one thing.

The second thing when you talkd about the carnival. So yes so situation is still very fluid. So there is all this back-and-forth cities here and there, a big agenda of carnivals being talked right now. The best guess that we have is really that probably the carnival will be really postponed. We are seeing the conversation about merging it with in June with some with the (social home) calendar or even going further a little bit. We were -- just to let you to know we were talking about our innovation strategy for the next year. We postponed one or two innovations that really depend on the carnival for us to make it right. So we are following closely this phenomenon. And I don't think it is a big deal, but we just have to get it right when it is and use it properly.

Q - Marcella Recchia {BIO 21226398 <GO>}

Okay. Thank you very much. And if I may have just a quick follow-up with regards to the non alcoholic category. Can you comment a little bit on your strategy to attack such a trend that we saw in the second quarter in order to revert that for the remaining of the year?

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

NAB?

Q - Marcella Recchia {BIO 21226398 <GO>}

Yes.

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

So NAB it took a little bit more time so -- to went down. So beer went down faster than NAB. And then NAB at some point in time, we believed that this would be a category more resilient but it didn't prove that, right? Looks like beer is more resilient. In the end, we have pretty much some effect that impacted the performance of NAB. One is really the volumes that it was a -- impact. The second one is really the reduction of consumption occasions for example, we have in our portfolio

Gatorade so that people will use to run and then get Gatorade on the go. So all these occasions on the go are occasions that are very -- being impacted.

So we talked a lot about mix in beer, but it's really that the single serve and the multi serve is really something that it was a big impact on the category of soft drinks. That has a completely different proposition in terms of net revenue per hectoliter, in terms of margin. It was a big impact. A little bit of trade down are in soft drinks too differently that's what I mentioned for beer. And then, we had a high hope in our business, because of the lower tax credit of the free trade loan that we have in Brazil. So there is some kind of hard comp, some kind of phasing on the cost side, that we have in the NAB business. So we believe that -- so that's pretty much it. So that's, I think, what I can mention.

Q - Marcella Recchia {BIO 21226398 <GO>}

Thank you very much, guys.

Operator

The next question is from Isabella Simonato of Bank of America. Please go ahead.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning, Jean, good morning, Lucas. Thank you for the call, I have two questions. First, on Brazil, you usually mentioned how the market performed during the quarter in December. This might be more difficult this time. But can you give us a sense on how do you see the evolution of the market sales during the month of Q2. And the second quarter will be at the last division where we saw a big drop in margins and I understand that the social distancing, right, in Argentina, Bolivia t as well as the economic situation are not easing. How can we think about profitability in LAS going forward? Thank you.

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

Okay. So let me get it right. So first we're talking about the industry. Second question we are talking about LAS?

Q - Isabella Simonato {BIO 16693071 <GO>}

Yes.

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

And a little bit of the mix and competitive landscape that you mentioned.

Q - Isabella Simonato {BIO 16693071 <GO>}

Yes. And the industry if you could focus on Brazil for beer, that would be greatly appreciated. Thank you.

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

Yes. So you saw our volumes. Our volumes were 1.3% declined. And we believe that we outperformed the industry according to our estimates. So we are really trying to get exactly right, where the industry is. It is not been easy because we are really looking at all the information that we have to kind of to get this thing -- to get the industry exactly right. So for example, using as a simple data set and it has its limitations. And now during COVID restricitons have further exacerbated the limitations to really for us -- to really get the number of the industry right. So we are waiting a little bit more to get confident about this number. But in our internal estimates we see a recovery on the industry. We saw an overshoot in March. And then we begin to see the recovery in the industry in general. And so we are seeing more and more the industry getting close to the last. And -- but it would be good to have a little bit more time to really get the right number on that, okay?

So that's what I can say about the industry. Talking about LAS, talking about in Argentina volumes declined by low teens in the quarter with revenue per hectoliter growing by double digits as a result of our revenue management initiatives. As a highly inflationary environment in this quarter in Argentina beer category was impacted by the restricted measures that they are even tougher than what we saw here in Brazil. But our business is more towards the off trade. So we compensate the restrictions with the in-home occasion that is more developed. And despite the decline in the industry we saw good performance of our e-retail platforms. Our premium mix, it is something that is growing. As we saw in Brazil premium mix is growing Argentina. Core plus is healthy there, so with our Andes brand. Corona is doing well, Andes is doing well. So we are seeing this thing about excitement of consumers about high-end and differentiated core brands, which allowed us to perform ahead of the industry in Argentina.

Bolivia it's because we have more restrictions that have been more impacted because of COVID. And this is -- it will take a little bit more time to come back. All the country is still really dealing with the upgrade in the infrastructure, in the hospital infrastructure. So this is where our biggest restrictions as our industry are. Paraguay, it's recovering very well in terms of country it is the population that we have more confidence in our zone. So the volumes are already coming back in Paraguay well.

A - Lucas Machado Lira {BIO 21526003 <GO>}

And to add -- just to add to that Jean I think it's fair to say that Bolivia is where we have seen the slowest pace of recovery, right. And I think that's kind of what may end up happening going forward as well depending on how the country tackles the pandemic. But it's been the slowest pace of recovery across kind of all our markets.

Q - Isabella Simonato {BIO 16693071 <GO>}

It's very clear. Thank you.

Operator

The next question is from Leandro of Bradesco. Please go ahead.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Hi, thank you. Good afternoon. I have three questions. First one regarding pricing. I understand this time last year and historically you used to implement price increases. If you could comment, where we stand on price increases this year. The second question, you mentioned that volumes, of course, it's is a component explaining your margin decline. But when we look into June, which was a month where you did not have a volume decline, if you could comment what was the margin contraction. And the third question, last year -- in the last quarter you mentioned that second half 2020 was going to be a challenging quarter because of competition. I want to like to know if that view has changed. Thank you.

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

Next quarter?

A - Lucas Machado Lira {BIO 21526003 <GO>}

Yes. Could you repeat the last question?

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Last year in the last quarter in the presentation you mentioned that you expected the second half of 2020 to be a challenging half with regards to competition. And so I would like to know if that view has changed at this moment.

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

Okay. So talking about pricing first. I mentioned, adn Brito mentioned too. I mentioned in the first call that we participate that we had to learn with the Q3 that we had in 2019 we were not successful on our revenue management strategies. We have to come back and come and we usually have been very rigid on our revenue management strategy. And that quarter was a quarter for us to look and learn with it, okay. So this is one thing.

Second thing is that as we think about pricing, we will -- we know that there is COVID. So we have the learning of the Q3 last year. And we are in the middle of a pandemic that will make us be paying even closer and special attention to disposable income. Packaging channel mix as well as the learnings of Q3 of last year that simply didn't work as expected. So despite this positive volume recovery trend in Q2 the consumption environment still remains volatile. The future is still uncertain. We are looking very close to it. So we want to really make sure that our category remains attractive and available inclusive to consumers during the pandemic.

Over the long run prices should really grow in line with inflation and plus and minus the segments and the regions mix. What we have learned over the past last year is is that depending on the moment and the economic environment, it's preferred to adopt a more balanced pricing strategy or postpone it for the right moment. And we are looking very closely at the macro scenario elasticity, experience really to make our call particularly here in Brazil.

So having said that margins, yes, we talked about the best -- the future that we recover top-line on a v-shape and really marked -- and really, margins, it will take more time to come through. We expect a bottom-line to have a slower recovery than top line. That was pretty much our strategy follow the consumer do not lose the grip, be on the new occasions, enhance your consumer intimacy, and we are happy with that strategy. But the channel is impacted shift dynamics towards the off-trade and the cost pressures that we have on mix, on cans and on transactional effects, it's something that we were going to take a little bit more time to digest.

Having said that we expect margins in the long-term to improve as a result of the volume recovery. The on-trade reopening with the increased wave of RGBs. The core plus materializing and premiumization as a strategy, the continued innovation. We are so excited about this innovation outside of beer that we have BGT, so different liquids, very incremental, very accretively priced, very above the beer completely different consumer. And one piece of our strategy is really the CapEx investments in technology in our context strategy footprint in the supply chain, really to get us to get more efficient going through this recovery of margins, okay?

A - Lucas Machado Lira {BIO 21526003 <GO>}

And then. Sorry, just to before you go to competitive environment Jean. To your question about June margin specifically okay, we're not going to go into that level of detail just because it's one month, right. And we think margins is more about the direction and the journey. I think but suffice to say that in June you see the power of volume right recovery when it comes to margins, right? So it's fair to say that June margin performance was better than the prior months as a result of the volume recovery, okay? But let's wait and see how things pan out going forward. Yes.

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

And talking about - so when we look at talking about the competitive scenario in terms of tough comps in 2020 in reality our (purposed comp) was Q1. Q1 is where we over-indexed the market share last year. And H2 it was more like in terms of competitive environment, easier comp because the volumes were down in Q3. And because of the strategy on pricing that didn't work as expected in Q3. So volume was light. H2 it's the most competitive one, the tougher comps really Q1, it is not H2 okay? So that's the point.

So having said that Brazilian market very fluid all is very competitive. And with the pandemic it has been challenging the environments we operate. We are pretty much leveraging all the competitive advantages that we have. So it's very important in this moment to have reliability and operational excellence. So our -- so we are increasing big time the customer satisfaction, the relation with our customers because we have been reliable. So the reach of our strategy of our distribution is something that really made the difference in this moment. And all the operational excellence reliability is something that has been a very counted by our clients.

We focused a lot on consumers to being sensibel. So digital transformation is really helping us to have multiple points of contact for customers. Customers can make the orders by phone by B2B by the sales rep that can visit. So we have multiple points of contact. We are -- we have that delivery for consumers. So we are really upgrading the possibility to get our network right and working. And the general strategy that we had, it was really something that is paying off and I think it will continue to pay off. So this grid with Moms-and-Pops, grid provides small off-trade is really something that we believe it will continue for a while.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. So just to be clear you don't expect competition to get stronger in the second half of 2020. So you expect to be about the same of what you're seeing up to now in the year.

A - Lucas Machado Lira {BIO 21526003 <GO>}

Yes. It's hard to tell right? What exactly is going to happen with competition going forward right? I think the important thing at least how we look at it right is one, focus on what the consumer wants, right and where the demand is, okay? Number two, focus on the customer, right and really try to strengthen the ties with the trade. And I think in Q2, we made some good decisions around that, okay? And then three as Jean mentioned, we need to leverage our competitive advantages as a company, right?

So having a single well-established distribution network that was built over 20 years in terms of direct distribution having a very well-established network of wholesalers that also has been with us for over 20 years. These things at a time like this, where the rise has -- the tide has arisen for everybody, right? It's tough for everybody. Right? But the fact that we've had such powerful distribution reach, direct distribution and wholesalers has made a difference and we're going to continue to focus a lot on that, right? And then -- yes, that's pretty much it.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Alright. Thank you very much.

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

One more.

Operator

The last question comes from Joo Soares of Citigroup. Please go ahead.

Q - Joo Soares

Hi, good afternoon. Thanks, everybody. So I have two questions. First one, I just wanted to touch base on the topic of government subsidies and the vouchers. You mentioned this in the release as being one of the factors that helped guarantee the -- some resilience of the volumes. And how do you view this -- when this is out of the picture what do you think this will have an effect on --

obviously an impact on consumer disposable income. So what do you think might be the effect in terms of what -- how could it drive volumes? And the second point just to be clear, I think looking at the revenues per hectoliter, declining in Brazil beer by less than 2% year-over-year. We have a series of headwinds and a series of mix shifts going from on-premise to off-premise obviously some brand shifts.

So how do you think -- what could have been the positive factors that could have offset this? I mean, when you compare to NAB, NAB went down 15% year-over-year, of course, it has its specific dynamics. But just comparing the two, really it comes to attention the resilience in terms of the revenues per hectoliter as well in the Brazil beer. So if you could discuss this as well, appreciate it.

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

Okay. So first of all, Corona vouchers. I think it's really something that is there, it's a relevant movement in support of the government. It's really something that we believe made some difference, has an impact on the consumer behavior. And this will be phased out at some point in time. And we have to understand that this part, it was a piece, that it was not like fundamental when it's structural for what -- for the volume that we have seen. But there is some marginal some incremental effect that we have to deal with when these things come out. We know that when these things come out, too, probably it will come some support for -- in terms of debt to retailers like what we are seeing a lot of the conversation about -- (being in debt) trying to support the channels.

So I think we want to jump in at different type of incentives moving forward. That we -- that should help at some extent too. But we know that this thing is something that it will come and go and we have to keep an eye on it.

So talking about prices. So we are not seeing -- so this number that you see it is pretty much about the general impact and the mix impact the performance that we have in Brazil. It is not something that more than that. So it is really business as usual with this different channels and with this different mix going on, then leading to the price that you saw. We believe that when the things -- so for example, we have drafts beers that is really high-end VIP box that's like 70% below last year. This does add a little on that. So we have -- so these things should come back slowly. Moving forward, it's not just about the reopening of the bars. It's really about the confidence of consumers really jumping into the socializing occasion when the bars are open. So we know it will take a little bit more time moving forward.

And then we have -- so the decisions that we have to do in terms of what to do with the revenue inflation in calendar moving forward, in this, we are pretty much paying even closer attention to this disposable income how this coronavirus will impact disposable income, really to make a call in a proper way, in a way in a different way than we did last year.

A - Lucas Machado Lira {BIO 21526003 <GO>}

And then just to the part of your question around net revenue per hectoliter performance in NAB, right? I think, as it compares to beer -- I think apart from the volume impact, which obviously is one thing to consider. Just the way the mix changed within non-alcoholic beverages. What led to a more pronounced effect on net revenue per hectoliter, just to give you an example, right?

Premium soft drinks, okay? So premium soft drinks suffered much more in -- than our premium portfolio in beer, right? And so -- and another example is single serve and multi serve, right? So the swing from single-serve where net revenue per hectoliter tends to be higher to multi-serve, right? That had a much more pronounced impact in terms of non-alcoholic beverages, then the mix shift between one way and RGB for beer.

Q - Joo Soares

Thanks, Lucas and Jean. Just one more -- so one more follow up very quickly. Jean, based on what you see in China what do you think -- I mean, when the situation starts to reach a more normalized -- if we can say it that way. But looking into the pricing environment, do you think -- how aggressive do you think the pricing environment could be based on what you see in China?

A - Lucas Machado Lira {BIO 21526003 <GO>}

Yes. How aggressive the pricing environment based on that -- I think it's very hard to say, honestly, okay? Again we're going to focus on the consumer the customer our brands, tackling the consumer occasion, okay? Time will tell what happens to the pricing environment.

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

I think the most relevant thing that I can mention is that things will take time to come back to normal, okay? But our category is very resilient. And we are seeing these new occasions popping up that -- so the socialized occasion for example, night life in China. It's really something that it will take time to recover. But there are new occasions, in e-commerce, in home, growing in China, growing in Brazil relaxation week days, Mondays, convenience, I want it right now that delivery.

So we really have to readjust, to go through -- and then it looks like it's possible. Net-net category is very resilient. But the socializing occasion in bars we saw it will take a little bit time here to come back, for people to really get confidence on that. We have seen this a little bit in China, but another occasions are popping up. And you have to grab and you have to support. And that's a way for us to go through the situation.

So resilient, but different for a while. Come back to normality, I believe normality will really be people confident in bars and then residual occasions that appeared during this pandemic that was not supposed to be here relaxation at home, that we will stay and will be incremental for the future.

Q - Juval Suarez

Thanks so much.

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

So I think, that's pretty much it? No? Thank you very much. Thanks for joining this call. We still have a long and bumpy road ahead of us but, we believe we are on the right track. So see you next quarter. Thank you very much.

Operator

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