Q2 2021 Earnings Call

Company Participants

- Jean Jereissati, Chief Executive Officer
- Lucas Lira, Chief Financial Officer

Other Participants

- Alan Alanis, Santander
- Ben Theurer, Analyst
- Carlos Laboy, Analyst
- Isabella Simonato, Analyst
- Joao Soares, Analyst
- Marcella Recchia, Analyst
- Robert Ottenstein, Analyst
- Thiago Duarte, Analyst

Presentation

Operator

Good morning, and thank you for waiting. We would like to welcome everyone to Ambev Second Quarter 2021 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, a slide presentation is available for downloading on our website ri.ambev.com.br, as well as through the webcast link of this call. We would like to inform you that this event is being recorded and all participants will be in listen-only mode for the company's presentation. After 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 and uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand the general economic conditions, industry conditions, and other operating factors could also affect the future results of

Ambev and could cause results to differ materially from those expressed in such forward-looking statements. I would also like to remind everyone that as usual the percentage changes that will be just discussed during today's call are both organic and normalized in nature and unless otherwise stated percentage changes refer to comparisons with second quarter of 2021 results, normalized figures refer to performance measures before exceptional items, which are either income or expenses that do not occur regularly as part of Ambev'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 Jean Jereissati, CEO for Ambev. Mr, Jean Jereissati, you may begin your conference.

Jean Jereissati {BIO 20161989 <GO>}

Good morning, good afternoon. Thank you very much for joining our second quarter earnings call. I hope you and your families are well and safe.

This quarter, we completed one year since the negative impacts of the first wave of COVID-19 pandemic. And I'm happy to see that the choices we made in the best 12 months continue to deliver results. We achieved the highest consolidated volumes In the second quarter on record, which led to an all-time high rolling 12 months volumes, five million hectolitres above the peak back in 2015. We have previously mentioned that we were better prepared to navigate challenges brought by the pandemic but at the same time, we also got ready for the economic reopening as vaccination rates increased. Our commercial strategy, innovations, tech platforms and operational excellence supported once again our performance as mobility restrictions were partially lifted in many of our markets. Nine of our top 10 markets delivered volume growth versus last year, and seven of them grew volumes ahead of 2019. Net revenue per hectolitre continued with solid growth driven by flexible and agile approach on pricing in premiumization efforts. Our above core brands continue to gain relevance within our portfolio. Our international operations continue the recovery best in the quarter growing top line ahead of 2019 and helping to offset transactional FX impacts on a consolidated level. In fact, top line growth was led by Dominican Republic followed closely by Guatemala which continues to show good momentum. Panama is bouncing back from tighter restrictions. In last we grew volume ahead of 2019 levels. In Argentina and Chile, our global brands showed, again a great volume performance. Driving premium mix which supported margin recovery versus last year in both countries. Bolivia, on the other hand, remains impacted by the pandemic where we continued focusing on preparing the company for the recovery, Canada still suffered from mobility restrictions, however, delivering growth in top line in EBITDA. In July, we saw restrictions been partially lifted as vaccination rate reached more than 50% of the population. Brazil beer continued to show great commercial momentum with double-digit volume growth versus 2019. This was also the fourth quarter in a row that we gained in market share according to our estimates and that innovation continue to represent more than 20% of our revenues. We grew volume in all segments with highlights to our premium portfolio that grew volumes by approximately 35%. These comes with more than 70% of our active customer base helping Ambev to reach all-time high customers for both beer and NAB as well as all-time high customer satisfaction measured by NPS rating in June. While reaching BRL9 billion of GMV this quarter. Ze Delivery, fulfilled more than 15 million orders, continuing to grow significantly versus last year. Talking about brands, we continued to invest in our portfolio and I'm glad to see the growth of our brand power metrics and the recognition of our marketing team at the

Cannes Lion Awards in France. Ambev received seven prizes, two golds, three silver and two bronze from campaigns in Brazil in Argentina. In the first half of the year on a consolidated basis, EBITDA grew 25% versus 2020, but that was still 7% behind 2019 impacted by effects, commodities headwinds, and SG&A expenses. For the second half, our outlook remains unchanged. We are on track with our V-shaped top-line recovery despite all challenges. We will continue to pursue volume performance at this new rolling 12 months levels reached in last quarter. Cost pressures will continue, especially in Brazil, and as for bottom line normalized consolidated EBITDA performance for the full year should improve as we work to get back to 2019 levels. On a longer-term perspective, we are building an ambidextrous organization focusing on delivering the short-term while at the same time transforming our business for the future. As we continue this journey our business vision is to transform Ambev into a platform with inspiring brands that connect people and the ecosystem creating shared value. As part of our transformation, today I would like to talk about our fintech, Donus. We believe that our customers can increase their chances of success if they become more digitalize and have access to more insights, to more adequate financial resources, lower bank and financial transaction fees, and even more convenience. Today, more than 80,000 customers registered on Donus can enjoy solutions such as POS terminals, digital wallets and credit lines. On the credit lines, we believe our long history with customers makes our credit scoring assessment very reliable. So far default rates are within expectations and we are now fundraising to expand this operation. In 2021, our focus is to roll out Donus in all distribution centers in Brazil as we did for BEES starting last year. To close, our top line momentum is real and we did put test in H2 given the excellent results we had last year, and I'm confident in our ability to keep taking our business to new levels and I would like once again to thank the Ambev team for the dedication during this tough times. Thank you very much for your timing and attention. And I will hand this over to you, Lucas.

Lucas Lira {BIO 21526003 <GO>}

Thank you, Jean, and hi everyone. As you will remember, Q2, 2020 was very tough because of the impact of COVID-19. Volumes collapsed in many markets and the mix shift was severe. However, despite these short-term headwinds we didn't panic, we did what we had to do to adapt quickly getting even closer to our ecosystem. and most importantly, we did not lose sight of the long-term and decided to seize the opportunities brought by the crisis and place some big bets to set us up for a sustainable recovery.

Fast forward 12 months, our Q2 2021 financial performance brings more evidence of the continuous and consistent improvement that I've been talking about so much, and the good news is that our team's disciplined execution behind these bets is continuing to pay off big time. And here's why, net revenue grew a little over 36%, EBITDA grew 24%, normalized profit grew nearly 116%, while operational cash flow remains unabated and grew about 2%. In addition, our financial performance in the quarter was boosted by BRL1.6 billion in tax credits of which BRL1.2 billion in other operating income and BRL1.4 billion in our financial results.

Just to recap these tax credits resulted from a favorable Brazilian Supreme Court decision last May that confirmed its 2017 ruling that the inclusion of the ICMS state tax in the taxable basis of the PIS and the COFINS federal taxes was unconstitutional. Given the nature of this dispute, these tax credits are technically part of our normalized results from an accounting standpoint, but as was the case in our Q4 2020 financials, we disregarded these tax credits for purposes of calculating our organic performance treating them as a scope change, we still have some pending litigation in this matter going forward and we will keep the market updated as things progress. However, as disclosed in the notes to our financial statements The amounts that remain under dispute are not as material.

While I'm on the subject of taxes, I also wanted to briefly comment on the proposed income tax reform in Brazil, which has generated a lot of questions from investors lately. The draft legislation is currently being discussed in Congress, and we are monitoring the proposed changes under public debate very closely. It is too early to speculate what will unfold. So we cannot comment on what impact, if any, this part of the broader tax reform will have on us and/or our shareholders Should there be any material developments, we will of course keep everyone informed.

Now back to Q2. As expected, the quarter presented meaningful headwinds in terms of costs and expenses. COGS per hectoliter grew nearly 16% on a consolidated basis. These headwinds were mostly felt in Brazil where our cost of goods sold was negatively impacted by adverse FX and commodity costs. On the other hand, better than expected mix, thanks to our commercial initiatives and on trade reopening witnessed towards the end of the quarter drove our returnable glass bottle volumes up which reached nearly 40% of our total volumes, which is up from 30% in Q2 2020. Also, cash SG&A was higher growing about 42% on a consolidated basis, where sales and marketing grew 35%, pretty much in line with our net revenue growth of 36% as we implemented our commercial plans for the quarter.

Distribution expenses grew 28% also below our net revenue growth mainly because of higher volumes, growing innovation, returnable glass bottle mix and expansion of DTC platforms in countries like Brazil and administrative expenses double with most of the increase coming from provisions for variable compensation since our performance for the year continues to be better than expected.

And remember 2020 wasn't no bonus year. Should our performance remain on track during the second half of the year, variable compensation should continue to impact our year-over-year SG&A performance. Having said all of that, the most important message is that despite all these headwinds, we remain on track towards our main ambitions for the year. Strong and balanced top line led recovery across our markets with better net revenue per hectoliter performance versus 2020. We continue to expect Brazil Beer cash COGS per hectoliter to grow in the low '20s for the full year with better than expected mix pretty much offsetting increasing non-hedged commodity's exposure, and normalized consolidated EBITDA performance for the full year should improve as we work to get back to 2019 levels.

Let me now turn to our financial priorities of protecting liquidity and improving our return on invested capital. Liquidity remains under control. Thanks to the strong cash generation during our recovery, we decided to pay down in Q2, the remainder of the debt we raised at the height of the COVID-19 crisis to create an additional liquidity cushion.

Having said that, going forward, we still believe it is warranted to maintain a prudent approach towards liquidity given the uncertainty and volatility that persist across our markets. As for the journey of improving our return on invested capital, we remain laser focused on operating as efficiently as possible, but we are also more and more focused on improving our resource allocation across the company. Think of it this way, we have great people, we have great assets and we have very strong cash generation. So the better we get at resource allocation, the greater the chance of consistently creating value. This value creation mindset is becoming a big focus of ours, and a good example of this approach is how we are looking at our technology platforms.

Platform business models like BEES, Ze and Donus in Brazil not only make total business sense from a customer and consumer standpoint, but they also make sense from a return on investment perspective of course, we are still scaling them up, but we believe that once at scale these platforms can drive important value creation for the company, and the reason why I say this is twofold.

First, connecting these tech platforms to Ambev's base of customers, consumers and brands will broaden our total addressable market with potential for further growing both top line and bottom line in absolute terms, and second, over the last decades we developed this amazing asset base in terms of the distribution, capabilities and reach, as well as trusted relationships with millions of points of sale across Latin America that provide our technological platforms with a very solid foundation to build on and scale in terms of speed, autonomy, and leverage. The more we are able to use the core business as a springboard, the less capital we will require to grow these businesses.

In terms of use of cash, after taking into consideration the appropriate liquidity levels for our more unpredictable and changing environment. After allocating resources efficiently towards organic growth and after keeping some M&A dry powder, we intend to continue returning excess cash to shareholders over time.

To wrap up a quick word on the ESG. On June 28, we held our ESG Day, when we shared our thinking in terms of how we are approaching sustainability, which after all is our business. Thanks to everyone who joined and for those of you who are unable to make it the materials can be found on our IR website, and we look forward to continuing this dialog with the investment community because there's still a lot much more to share to learn and to do.

Thank you. And with that, let's move to Q&A.

Questions And Answers

Operator

Thank you, ladies and gentlemen we will now begin the Q&A session. (Operator Instructions) Our first question comes from Marcella Recchia with Credit Suisse. Please, Marcella, go ahead. Marcella, try to press again.

Q - Marcella Recchia {BIO 19113462 <GO>}

Hi, Jean Hi, Lucas. Thank you for taking my questions. I have two questions here, first on Brazil Beer, could you explore a little bit more about the strong top line growth we have seen now for a few quarters in a row and your expectations to sustain this momentum going forward, I wait that before going to my second question.

A - Jean Jereissati {BIO 20161989 <GO>}

Sure. So yes Brazil beer has been with good momentum for a while, right now. We know that last year in the pandemic the comps are all over the place, but if you look at the cleaner reference there is 2019. You can see clear how Brazil with steel with gaining momentum quarter after quarter, Ambev accelerating.

And I think this is based on many decisions that we took all over the best year that it was really a mindset of being the leader in expanding the industries, the industry had this opportunity to develop the in-home occasion, increasing helping to increase frequency, a lot of the mindset on innovation were 20% of our revenues are really coming from in Beer Brazil from products that did not exist three years ago, when this is up a pipeline of brands that they are coming in quarter-by-quarter and they are maintaining their performance. So I'm very excited about that. There is one Information true that we have here in Brazil above the brand equity, the brand power of our portfolio, and when we compare H2 2021 with H2 2020, we gained three million new fans of our brands. So that's a KPI that we focus and which we follow very close also so consumers that they really elect one of our brands as their preferred brand.

So this number is real increase in our portfolio is really stronger, and moving forward, I think somehow, the good news will come as the vaccination came backs with the reopening. we come back to our stronghold, there is really this socializng out-of-home occasion. So, somehow I feel that very confident that we are with a structural movement on our top line with momentum that I'm very confident of.

Q - Marcella Recchia {BIO 19113462 <GO>}

Perfect Jean. Thank you very much for the clear answer. My second question now is more a sort of an update about your venture initiative menu that. Could you share with us more about the recent developments on this business line?

A - Jean Jereissati {BIO 20161989 <GO>}

Menu?

Q - Marcella Recchia {BIO 19113462 <GO>}

Yes.

A - Jean Jereissati {BIO 20161989 <GO>}

The marketplace. Right?

Q - Marcella Recchia {BIO 19113462 <GO>}

Exactly.

A - Jean Jereissati {BIO 20161989 <GO>}

So that was our start-up that we accelerated two years ago. We grew 60 times their GMV with us, and then we make a decision to when we accelerate in menu, we didn't have this developed, and then now we decided to combine these initiatives, and then the marketplace and the new assortment will be leveraged by the audience of this, so we are migrating this platforms. We have this view of customer community and then we are having technologies for these customer community and this we believe that and so BEES and Ze, the founders are leading the way with that and we are really putting in altogether. So mentioned sold and then going into this. So now we have 70% of our active buyers already purchasing through the platform. That was like 20% like one year ago, the GMV, when we put our beer, is really accelerating to $9 billion now and the NPS that we measure about the usage of the app, the delivery is really all-time high and now we are, with all the team of Melo using this platform to develop the partnerships, the relations with the different industry, their knowledge about everything together. So BSN menu, they were integrated.

Q - Marcella Recchia {BIO 19113462 <GO>}

Perfect. Thank you so much.

Operator

Our next question comes from Carlos Laboy with HSBC. Please, Carlos, go ahead.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes, everyone, good morning. Lucas Oregon, can you please share with us how your digital capability and your upgraded approach the business values are changing the way that new you impose price discipline across the marketplace. In other words, how you resist maybe the impulse or temptation for discounting, and I'm speaking about both the will and the capabilities for achieving superior pricing discipline and how you link that then to both your brand development in your market development.

A - Lucas Lira {BIO 21526003 <GO>}

Okay, I'll take that one. Laboy, thank you very much for the question. So if you look back on this on our journey of becoming more digital and in our vision of moving from a beverage company into a platform where we have two big communities, there is consumer community that Ze leads and the customer community that now is BEES leads. We are in a long journey of building this capability and this muscle. We acquired back two years ago (inaudible) that was really the company that helped us in the beginning, and then we internalize and then we invested on BEES and now in Ze Delivery now we have something around 2,000 coders working with us really with this mindset of being able to get digital products and not just beverage products in the market, and these BEES and Ze both they give us a lot of visibility, a lot off granularity for us to increase big time our revenue management capabilities.

So I'll talk up first about BEES, now 70% of our customers, they are there. And so we know when they buy we are really learning that they prefer to use the app during weekends and do not wait for the sales rep and then the sales rep gets there and there is the learning that something that we didn't figure out before that they buy, B2B business is made off imposed to so they buy in different ways. If you have good promotions and we can add different products to our basket if you really have the insight about the basket of our customers when we add different information. So BEES is a completely different muscle animal that will help us have a lot of insights on our pricing strategy much better that we had before and BEES helped us.

Already if you see our discount optimization big time, this year where we are much more linear much more in terms of acquiring new customers so we are, with 10% more customers that we had before the pandemic and this type of granularity and artificial intelligence is really helping us really to be efficient with discounts and to as market pricing as market revenue management.

And Ze is another thing so Ze we have a five million consumers community that they use the app and we are just targeting now one occasion, there is this thing about Ultra convenience 20 minutes, 30 minutes beer at home with supermarket prices, but then there is a lot of a room for us really to follow the consumer journey, think about when our consumers, they have a party to anticipate that and have a different type of revenue management for that occasion, and we are, and we have the opportunity to increase big time signature show where we have another app in Ze Delivery can at some point in time decide if it goes for this new mission and all those missions we can go very granular and we can really decide in a smart way what's the revenue strategy for it. So we are in a completely new moment in terms of the capability of using data to decide our revenue initiatives.

Q - Carlos Laboy {BIO 1506984 <GO>}

So you have more tools and capabilities for protecting the value of your brands by offering the point of sale on a ray of other areas and services where you don't have to give away value in your brands essentially right.

A - Lucas Lira {BIO 21526003 <GO>}

That's it because we are, we add convenience. We think about missions. We understand our consumers and with a broader portfolio, we can, when we put all of these four levers together, we can really go to a different level of revenue management with the technology that we just added.

Q - Carlos Laboy {BIO 1506984 <GO>}

This is excellent. Thank you very much, I appreciate your insights.

Operator

Our next question comes from Thiago Duarte with BTG Pactual. Please, Thiago go ahead.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello, Lucas, hello Jean, hello everybody. Thanks for the opportunity. I'd like to ask three questions actually. The first one is, if you can help us navigate through the SG&A particularly in Beer Brazil, but I think it goes for the rest of the geographies, but particularly in Brazil, I mean it's clear the year-over-year pressure on G&A is coming from bonus accruals, but it also feels like that there is more to it?

And I was wondering how much that's coming from the digital initiatives and the last mile logistics. That is arguably impacting your cost there, particularly coming from BEES and Ze. So if you can, if you can help us through navigating through it in terms of how we should think of it in percentage of revenues going forward for SG&A, that would be nice. The second question is on BEES and you mentioned the BRL9 billion GMV in Brazil and how 70% of your clients are already active in the platform, but can you help us or can you detail a little bit more on how that GMV breaks down between Ambev's products and third-party products or in other words, how much your clients of those 70%, you know how much of their purchases, they are doing effectively from the platform, and that would be nice to hear as well. And the third question, can you talk a little bit, I think more to Jean?

Can you talk a little bit more about the resilience of the beer industry you already discussed in a previous question about the momentum that you guys have built over the last four quarters, four or five quarters, but can you talk about the industry itself because it really looks like the industry Ambev is stronger than the industry now, but it looks like the industry is strong on itself? So can you talk about this in terms of the demand in terms of how the occasions have built during the pandemic, and how you expect this normalization to affect your mix in particular because it also looks like premium has gained more ground on the back of this changes provoked by the pandemic? So if you could elaborate on that would be nice? Thank you so much.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. Good questions Thiago. Thank you for the questions, we will start backwards. We start with the industry, then BEES and then we go for SG&A. Okay. So industry first of all yes, we are seeing our resilient industry, we always mention that our industry is a resilient one and the pointer is that it's like we really made this decision a little bit before the pandemic, to as a leader company to really bet on that we studied a lot the different of industries and performance of Brazil and Mexico to get our approach down here in Brazil.

And then the pandemic came, we really decided to really accelerate towards the future, towards what's going on in our market that's maturity two and goes for maturity three and what's our approach for channel and innovation and occasions. So we really went bold on that a big part of the industry expansion probably all of the industry expansion is really coming from our volumes and in what we are seeing it is that I think the. So - is that the beer in Brazil it is something that is very healthy in terms of a consumer approach.

So it's not losing share of growth is very healthy it's a category that we see as very healthy, the interest, the concept about new liquids in the meaning of the brand so everybody is - still very important in the culture and in the people's lives. So this is one thing. The second thing it is that we always knew that moving forward to a more mature market, new occasions would come. And then we had, we have this view off a big part of the increase in the industry in Brazil, it's coming from frequency, it's coming from in-home, it's really coming from Mondays and Tuesday's relaxation, mindset, but so, that's what we see. And we believe this is something that we see, well - we see coming in all the markets and it was just accelerated by the pandemic, and we believe that the residual of that we will maintain. And then with the vaccination in the restrictions really being lifted we will go back to the other occasions that are really our stronghold the bars and the socializing out of home.

So in the end, I believe that the combination of like Ambev really putting industry as a priority in the learnings of Mexico in the innovation that address occasions. In address, new consumer for example Stella same polluting, so it really adds consumers for the industry. I really believe that the industry will keep strong. So that's my view on that. I believe that with vaccination and we have all the things that we did, I think we want to have. I'm optimistic in terms of industry about H2.

In reality, a surprise for us it was more than the high end, what we saw it was really innovation and core in the resilience of the core really making a big part of this growth of the industry that we navigated very well, high end is something there is more structure, it is more long-term. So this is, we know that we want to come. The difference that we really saw in this last year, it was really an innovation in core that drove a lot of the changes in the industry. Okay. So this is one thing.

So second thing about BEES. So first of all, the vision is to digitalize our customers and then to have beer as their backbone, so they have to download their app the BEES, the usage has to be good, the NPS has to be high, and we should be able to do it by ourselves like beer, thinking about the new role of the sales representative, how they will be in part of that, how we want to bring all of this e-commerce experience for our B2B, and this is where we are. So we are guaranteeing that this is. So we are aggregating now our wholesalers. So this is now a platform that we were going to be 100% off direct distribution centers and wholesalers.

So it will be all over Brazil, and then with that we begin to aggregate partners. Okay, so this BRL9 billion is pretty much our beer GMV. When we put at Ambev today information that I can give you is that we are close to BRL100 million of products that didn't are part of our portfolio. This is growing very fast, as we continue to expand our e-commerce portfolio. Now we are with around 300 SKUs that they are not from our portfolio, they are now, but they are not produced by us, 31 partners and we are in 380 cities offering this new portfolio. So this is the type of numbers that we have.

So BRL100 million Ambev not just be a Brazil with products that are not from our portfolio and growing very stressed. When we go for SG&A, I think we have to break it down, it's hard for us to talk about SG&A combined because they have very different dynamics. Sales and marketing is pretty much what we've seen this quarter, maybe a little bit off a phasing from things that we didn't do in Q1 because of Carnival that we invested more in the premium now, but overall in the long-term this should be like in line a little bit below our top line.

When we go for distribution, what came above our volumes performance in normal inflation? There is a half-half performance on, there is innovation that we just launched in the supply capabilities, they are coming. So we launch it for example, now our brand called Spartan, so it is starting to agree. And then we move it a lot, and then we catch up to producing more breweries. So there is a piece of it. Not a piece of it is really the transformation. The last mile offsets or when we look at this numbers in the best what's goes beyond the volume in the inflation. There is a half. There at these numbers efficiency for us to do on the France, the supply capabilities of innovation we are accelerating, and there now the last mile, there is a lot of opportunities for us, and bonus is really that we didn't have last year in once we decided that the role of this year was to have a V-shape recovery on the top line.

So in the end. This is something that we are delivering, and we are accruing the bonus for that, there is above last year in above normal average that we had in the best, but I will ask Lucas to give a little bit more insights on the SG&A piece.

A - Lucas Lira {BIO 21526003 <GO>}

Okay. Thank you, Jean. Thanks for the question, Thiago. So I think on sales and marketing, right. The way to think of it, okay, is really around sales and marketing, which is - what we saw in H1, right. We saw net revenue growth ahead of sales and marketing, okay. So I think it's -- we're not targeting specifically any sort of trend going forward, but if you look at the performance over the last few quarters, that's what you've seen, okay. In terms of distribution, I think the way Jean broke it down makes sense, okay. So I would look at it on the variable side, really linked to volume growth and also mix of returnable glass models on the one hand, okay, and so as volumes continue to grow it's reasonable to expect distribution expenses to also grow and as returnable glass models recover likewise some increase in distribution per hectoliter as a result.

And then on the other, the other side of distribution expenses, we have the innovation and we have initiatives like DTC. Innovation there is opportunity for improvement as we bring online more production capacity spread out around the country to really avoid the need to ship product long distance as the footprint improves for innovation and as Jean mentioned regarding DTC, the reality is that is still not at scale, and so as it continues to scale up, we do see more opportunity for efficiencies on the distribution side of the DTC platform, okay.

And then finally on admin, the bulk of the organic variance year-over-year is indeed coming from variable compensation that explains more than half of the increase and that's a function of the fact that recovery is better than expected, right as we went into the year. So if we continue to deliver better than expected results for the remainder of the year, we should continue to accrue for bonus going forward, okay.

Q - Thiago Duarte {BIO 16541921 <GO>}

Great answers. Thank you so much, guys.

Operator

Our next question comes from Isabella Simonato with Bank of America. Please, Isabella, go ahead.

Q - Isabella Simonato {BIO 16693071 <GO>}

Hi, good afternoon everyone. Jean Lucas, thank you for the call. My question is on the cost side, right. I remember Lucas you mentioned last quarter that Q2 was likely going to be the peak when we think about cost per hectoliter and in reality it was better than Q1, right, and at the end of the day you're keeping the guidance 40 year. So I was wondering, what is actually changed this quarter, right, and how you're phasing this for the second half of the year.

A - Lucas Lira {BIO 21526003 <GO>}

Okay. Hi, Isabella. Thanks for the question. You're right, we had a positive surprise in Q2 on the COGS per hectoliter on the cash COGS per hectoliter performance. That improvement came mainly from mix, okay, and the reason for that improvement is really better than expected returnable glass bottle volumes which recovered much faster than we anticipated, okay. And so, and that's good news for the remainder of the year. as we continue to work behind having returnable glass bottles continue to gain weight as part of our mix, okay.

And the reason why we are maintaining the full guidance for the year is because you may remember that in Q1, I refered to the fact that part of our commodity costs are not hedged, right, and given the way that commodities have continued to trend since then, the commodity cost pressure, the unhedged portion right is actually continuing to become more of a headwind, okay. Net-net, we think it's going to be pretty much a wash meaning the higher unhedged commodity costs are going to be pretty much offset by a better mix, right, which allows us to reiterate the guidance of cash COGS per hectoliter in the low '20s for the full year, okay, but that's the dynamic better mix offsetting higher unhedged commodity costs.

Q - Isabella Simonato {BIO 16693071 <GO>}

That's clear. Thank you very much.

Operator

Our next question comes from Ben Theurer with Barclays. Please, Ben, go ahead.

Q - Ben Theurer

Thank you very much, Jean, Lucas congrats on the results. Just wanted to follow-up a little bit on the strategic initiatives around the B2C and the B2B business and how that is aligned with your more flexible pricing strategy, and how you think of the back half of the year and then into 2022 in regards to potential price initiatives and how you think you can leverage what you established on the B2C and B2B business? Thank you.

A - Lucas Lira {BIO 21526003 <GO>}

Yes, so let me try to give you a broader answer on that. So yes we are reviewing upgrading our strategy moving forward. We have this business vision that we are much more than a beverage company. We want to transform into a platform, which is inspiring brands that really connect people in the ecosystem, so that we can all grow together and so there is a big bet on the tech piece, on really upgrading the company into a platform where we have two communities that we really have to serve perfectly then the customers' community and the consumer community.

And then Ze is addressing, our consumers and then we want to think about how to add more technology to that more missions, more occasions, more now, does that should be more omnichannel and then BEES is really about the customers and then we should like integrated more with Donus and really upgrade BEES to our technology that serves Ambev customers, but should move into a broader portfolio that we are ready to talk in this call, but then moving then into a fintech that has this opportunity to really solve financial problems, financial services of our customers with credits and with our beer rest machines and everything. So we are really going in these two directions and the possibilities that we have in revenue management. They are transformational. So if you think, we are long-term wise piloting discounts more as cash backs in the financial deck in the financial, in the fintech combined plus BEES. So we are really thinking about. So we are learning a lot with this granular, big assortment, lot of customers' information that we have, that we are using artificial intelligence and the algorithms. They are upgrading we are getting better and better on adding more portfolio to the same clients on adding portfolio there is not from our breweries, but they are very essential to our customers, and so, there is a lot of this new muscle of revenue management that we have on the customer side and on the consumer side, and at some point in time, these things will be really fully connected. So we give the discount to our consumer that goes in a customer that has BEES and these things connect and they match each other rapidly.

So it's going to be a new muscle that we -- are working very hard to be a competitive advantage for us and we believe the things that we are learning this year, they will really help us in 2022, because they are really transformation, and they are really good, not just from our perspective, but in the way we settle those things with customers in the way we target consumers and get more discounts for consumers on occasion based on missions.

So I really believe this muscle will be very important for us for 2022 it will help us on the top-line. And other thing it is that the best thing that we have so we are living on a inflationary scenario here in Brazil still and in the end so we have to make a decision on the price increases that usually comes on September -- in the middle of September, and the good thing is that we are seeing momentum and it will be September-October in our business.

We see momentum in our business and this is so important to make these decisions because we feel comfortable to take risks, and we are seeing the vaccination numbers where Brazil can be with like 80% of the population fully vaccinated by October and November. So it looks like we want to have a good end of the year with good momentum and with new tools and capabilities for us to really live in this inflationary scenario that we've been living in the last couple of quarters.

Q - Ben Theurer

Okay which in turn that should also help you to offset some of the incremental raw material your cost pressure, you most likely have locked in for what, at least the first half of 2022 is correct?

A - Lucas Lira {BIO 21526003 <GO>}

Yeah. Hi, Ben. Hi, This is Lucas. I can take this one I think the answer is yes, it should help partially offset that and remember that given our hedging policy, right, of course, we still have pretty much half of the year to go in terms of hedging, but what we're seeing now is that looking into 2022 the pressures that we face for 2022 are far lower than the headwinds that we are facing in 2021, right.

Remember that given how the BRL and the Argentinean peso trended in the last 12 months, right. The bigger portion of our cost headwind this year is coming from FX right, and looking into 2022 that's not the case so far this year, right. There is still half of the year to go, but so far, we're at a much better place on the FX head side going into 2022 as opposed to where we are today, okay. And on the commodity side, yes, we do face higher commodity headwinds going into 2022, but the net-net combination of FX hedges and commodity hedges are at a much lower level than the type of headwinds, we're facing in 2021.

Q - Ben Theurer

Okay. Perfect. Fingers crossed for the second half, and thank you very much.

Operator

Our next question comes from Joao Soares with Citibank. Please, Joao, go ahead.

Q - Joao Soares {BIO 17386703 <GO>}

Thanks, good afternoon everybody Jean, Lucas. I just have two quick ones on my side. The first one, I just wanted to understand with the vaccination accelerating in key cities here in Brazil and the on-trade recovering. I just wanted to understand, I mean you're of course you're developing very well on BEES, and of course, we're very close to that client throughout the most critical moment of the pandemic. So that's my first question.

The second question Jean I know that BEES is developing very well, and thanks for sharing that information on the GMV and the color on the [inaudible], but I wanted to understand about competition looking more into the long-term, do you identify any potential competitive pressure coming from potential wholesalers developing their own online businesses that compete with the B2B clients and BEES. So I just wanted to understand more of the long-term outlook for BEES? Thanks.

A - Jean Jereissati {BIO 20161989 <GO>}

So. first let's talk about the market share reopening in the on-trade. I think our -- so based on our information. So our market share is very strong, and so we have -- if you think about the last quarters, so this Q2, it is something that we are with a very good market share that something that we begin to build and we really are on as I mentioned in the beginning, it looks like Brazil was within a new level of volumes and market share, on this Q2. And I believe this if you think about channel mix if we really can't maintain the market share that we have channel-by-channel. In this deal on trade recovers this occasion of socialize the out-of-home. So usually this should be positive for us because it's the occasion that we really over index. So, somehow, I'm optimistic about the market share, and so let's see how it goes in H2, but theoretically, the trend should be in our favor.

And on top of that, so there is a lot of thing there is really structural, so Brahma brands is much healthier than before Brahma, Duplo Malte help the whole category. So the whole family. So of the Brahma's help it big time on their and growing a lot on the equity there. So this is an important point on the consumer side. So my RTM is really structurally better than before, I'm reaching more customers, my service level is all-time high. So the digitalization is bringing completely new features and opportunities that we have that they are liking so much the adoption was so high. So, somehow, I'm very confident on that.

When we talk about wholesalers in BEES. I believe somehow we are ahead of the game, so we really started this in the right moment. If you were talking about my wholesalers, my wholesalers they are really inside my ecosystem, very excited and aligned with the BEES platform. So my wholesalers that they are -- so my RTM is really 100% with BEES. When we look about other beverage companies in other FMCGs looks like we are pretty much ahead in the game. And I know some competitors, they are trying here in there, but I don't see that much coordination on that matter. So I think we are ahead in the game, and I think the competition is more on these things. But in the end, there is a lot of opportunity. So this market is so fragmented. So the leader in this industry has 3%, 4% of market share. So it's really a place where competition is very fragmented, and somehow we bring our service level and capability of delivering in reaching, that's unparalleled. So, somehow I think these are the things that I could mention about your question.

Q - Joao Soares {BIO 17386703 <GO>}

Thank you. Just to be clear, I was referring to the players. The cash interplays like - but I get into the question? Thanks.

A - Jean Jereissati {BIO 20161989 <GO>}

Thanks. Yes, we think the total addressable market is huge and this industry is very fragmented. So we see plenty of opportunity. That's the bottom line.

A - Lucas Lira {BIO 21526003 <GO>}

And I think it's less about competition because it's very fragmented, it's really about under serving customers that they are really in need in this moment that all - there is more retailer need productivity to go over they spend can in the future. I indeed of some company or some app that really solve their problems and I think they are really underserved today. So that's the view.

Q - Joao Soares {BIO 17386703 <GO>}

Understood. Thanks.

Operator

Our next question comes from Alan Alanis with Santander. Please, Alan, go ahead.

Q - Alan Alanis {BIO 15998010 <GO>}

Thank you so much. So we look at - congratulations on the results and then the integration and the strategic direction of the company particularly. Just a couple of quick questions, one of the, that the global the more strategic, the tactical one, could you help us understand the 4% sequential decline in pricing in beer in Brazil from the first to the second quarter, how much of that is product mix, brand mix, channel mix, and so forth, and the equal to that is Chile, if you could give us a lot bigger in terms of the relationship with the Coca-Cola system over there. I understand that it's working very well. What are the lessons that you have learned, and what are the opportunities for those partnerships in other parts of Latin America? Thank you.

A - Jean Jereissati {BIO 20161989 <GO>}

Thank you, Alan. Let me get this one. So the price reduction quarter-over-quarter if you look back in the past, so it usually occurs mainly because of region mix and a little bit of channel mix. So, is something, there is a little bit more structural than the season. It's most of the years it's there, it's around seasonality and mix, in general off regions in channels, okay. So there is no big deal on that, there is not something that was a decision. It's something there is more normal.

When we go to Chile. So, yes. So the good part of that is looks like as they mentioned to us, it's very happy. We are very happy, looks like Coke company is happy, so it's a deal that like it's, there were a lot of value that we are properly sharing and everybody is in a more is looks like is happy and it is a platform where one plus one is more than two and it because. So we have the leading brand in terms of equity in Chile, there is Corona.

They have the leading platform of distribution and we were trying to put these things in parallel, when we decided to go together the governance is working and it just makes us confident to have more alliances in general was and so BEES all over the place is a technology where we are, building a lot of alliances and partnerships. And so I think this concept of alliances, they will be on the next level in the past it was just the alliance on exclusive distribution now and we are very happy with Chile, but then we have to think alliance from a broader perspective on using the technology delivery on BEES here and there, sometimes you have distribution, sometimes you don't have the distribution just get the take rate. So this concept. So we are going to be much more open to different type of alliances for us to do than we were before. Chile is one type that makes us really confident that alliances are good and possible.

Q - Alan Alanis {BIO 15998010 <GO>}

Yes, that makes a lot of sense and very happy. So again congratulations and thanks for taking my question. Thanks.

Operator

Our next question comes from Rob Ottenstein with Evercore. Please, Rob, go ahead.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. A few questions that may be related. First, can you talk a little bit about how your high-end business in Brazil Beer is developing obviously a tremendous portfolio, but what percentage of your business now is at the high end, is that part of the business gaining share and are you seeing any changes in the consumer base between kind of the craft beers that you have, the imports, any nuances around corona backs, so that would be the first question?

And then the second question is, can you talk about innovation this year, kind of revisit, what are the most important innovations in 2021, and anything that you're doing that's notable on the beyond beer or returnable bottle -- not returnable bottle, returnable drink side, ready-to-drink side, I'm sorry, ready-to-drink side in your region. So high-end '21 innovation and ready-to-drink beyond beer projects in '21. Thank you.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. So thank you for the question, Robert, let me get the premium first. So this was a quarter that we grew with our portfolio something around 35%. So it was a good growth. So what we saw during the pandemic is that, so we saw in terms of portfolio, this thing about the resilience of the core, the high-end growth in this segment is something more structural, that it's like a more long-term, and we see it coming back again, and this is structural, it is something that is our priority and we put as a KPI for us, brand equity, so investment in branding ahead of any type of market share gains, okay. So that was our decision, and we put the portfolio in place. We positioned the brands, find the consumers, and then we are really investing on marketing dollars, over indexing big time on the high-end, and we really want to drive brand equity ahead of any type of penetration and assumption to really have a sustainable long-term business and we are very excited about it because we are growing equity very fast in a very consistent and sustainable way with our portfolio, and then our portfolio, it has to grow volumes accordingly. So it was a good quarter, but I'm more excited with even though with the brand equity and on how Corona is really performing on how Becks it really came with this region of a product that follows the pure love in it and has the edge in flavor is [inaudible]. So I'm really excited about brand equity moving very fast, sustainable for our portfolio and then volume will follow, okay. So this is one thing.

Second thing it is that, when we talk about innovation in our adjacencies, so in talking about beverages here, so the pipeline of innovation, the most relevant things that we have in place are -- so I bet on health and awareness, okay. So this is the avenue that we're going to populate and we're going to have more products on that. So we are in the Olympics now launching Michelob Ultra in Brazil with the Olympics -- in the Olympics moment, Usain Bolt is our -- is in our advertising. So it was a good moment for us to launch Ultra. We just roll it out after the pilot stellar without looking that we are very excited about. So we are bringing out new consumers to the beer industry so these are -- this is an avenue Ultra and growth in.

Okay. So this is the revenue that we're going to populate and we're going to have more products on that. So we are in the Olympics now launching up in Brazil with the Olympics in the Olympics moment on Board is our, it is in our advertising. So it was a good moment for us to launch Ultra. We just roll it out after the pilot stellar without looking that we are very excited about. So we are bringing new consumers to the beer industry sold. These are, this is an avenue Ultra and growth in we launches in terms off renovation At the Core brand goes passing. There is one brand that from our portfolio, German, first --from 1397 that we are rolling out in Brazil that it, we will have premium Core plus prices that it's our important a beds that we have.

We launched in terms of renovation of the core a brand called [inaudible]. There is one brand that from our portfolio, German, first dated from 1397 that we are rolling out in Brazil that it will have entry premium core plus prices that it's our important bets that we have, we just started to roll it out. And in terms of adjacencies, so the Beats brand is doing very well, we are rolling out Mike's Hard Lemonade with the flavors in -- with the lemon tangerine in peptide flavors and we are piloting the hard seltzer. So that's where we are and these are the three most important avenues of pipeline of innovation that we have for the H2.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. And if I could just follow up, I know it was very interesting your comments on growing brand equity ahead of volumes essentially, and making a key KPI brand equity. Is that approach somewhat different than what you've had you know, over the past, you know, history, I mean not maybe the last couple of years but historically, over the last 10 years, would that be a very different approach.

A - Jean Jereissati {BIO 20161989 <GO>}

So this specifically - this KPI that we are following brand power -- brand equity in power, we're going faster than the market share. It was something that for now we are 18 months consistent with this specific strategy and we begin to see it, it's paying off.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Terrific, thank you very much.

Operator

Ladies and gentlemen, that concludes our question-and-answer session for today. Now I would like to turn the conference over to Mr. Jean Jereissati, CEO for Ambev for his final remarks.

A - Jean Jereissati {BIO 20161989 <GO>}

So I would like to think again my team Ambev for the dedication during these tough times. I also want to thank analysts and everyone who joined this call for time and attention and to wrap up and I'm really confident about the future. I have this feeling that we, our company is really structurally better in a tough cycle of commodities in currencies, but when you look at the underlying trends, we are really structurally better commercial strategy, innovations, tech platforms and operational excellence is really delivering results

We seize the opportunities brought by the crisis we place it, big bets of accelerating towards the future in a sustainable recovery. Transformation is here in our business, so we have this vision of platform customers and consumers, two big digital products that we have BEES and Ze and our portfolio is really stronger than before. Brand equity, brand power is really showing that we have three million consumers in Brazil that claim - that mentioned to us that one of - in the past one of our brands were not their preferred one and now, one of our brand's are their preferred one. So I'm very excited about my portfolio, and cash generation is strong -- remains strong.

So thank you very much for all your time and attention and have a great day.

Operator

Ambev's conference call is now concluded. Thank you so much for attending. Have a nice day and you may now disconnect.