Q3 2020 Earnings Call

Company Participants

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

Other Participants

- Luca Cipiccia
- Lucas Ferreira
- Marcella Recchia
- Ricardo Alves
- Robert Ottenstein
- Thiago Duarte

Presentation

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's Third 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 download on our website, ir.ambev.com.br as well as for the webcast link of this call. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Ambev's remarks are complete, there will be a question-and-answer session. (Operator Instructions)

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

I would also like to remind everyone that as usual the percentage changes that will be discussed during today's call are both organic and normalized in nature, and unless otherwise stated, percentage changes refer to comparisons with third quarter 2019 results. Normalized figures refer to the performance measures before exceptional items, which are either income or expenses that do not occur regularly as part of Ambev's normal activities. As normalized figures are non-GAAP measures, the company discloses the consolidated profit, EPS, EBIT and EBITDA on a fully reported basis in the earnings release.

Now, I will turn the conference over to Mr.Jean Jereissati. Mr.Jereissati, you may begin your conference.

Jean Jereissati Neto {BIO 20161989 <GO>}

Thank you. Good morning and good afternoon. Thanks for joining our call for the third quarter. If the second quarter was marked by resilience, adaptability and agility, Q3 was all about building momentum. The overall environment remained fluid and challenging, but the team did a fantastic job in terms of executing our plans. Thanks to them, we remain on course for our recovery path. So before diving into the results, I just wanted to thank my team. Great people have always been the foundation in driving force of our company and I'm very proud of all of them.

The third quarter continued to be marked by the pandemic. Despite all the difficulties, our commercial strategy worked. The V-shaped volume recovery trend that started back in May continued throughout the quarter across all of our markets. The the trends by country also remain very similar to Q2. Bolivia, Panama and Dominican Republic continued to recover more slowly. Although, the volume performance is improving gradually on a monthly basis, this countries continue to have more severe restrictions. Argentina, the base of the recovery was impacted mainly by the macro backdrop in the country. Paraguay, Chile and Guatemala recovered faster, thanks to market share gains, while in Canada our volumes benefited from the strong performance of our premium Core Plus and Beyond Beer portfolio that led to market share gains amid a positive industry.

In Brazil, what we saw our adaptability, operational excellence and innovation, all came together during this quarter. We estimate that the majority of our volume growth came from market share gains as our commercial strategy is gaining traction. The rest came from a combination of industry pricing calendar and tailwinds. We continued to see operational restrictions across the country, which varies between regions with big cities and urban centers still being more effective. The good news is that their own trade is gradually reopening and the small mom and pop off-trade stores continued to gain relevance.

To give a dimension, we have ended the quarter with a increase of 10% in the number of total buyers versus the pre-pandemic. Also, I like to say that Brazil got gigantic geographically in this pandemic as customers and consumers were less mobile and there was the trusted partner to deliver volumes in the most remote areas of the country. Following all safety and health protocols, our products were delivered from Oiapoque the most northern city in Brazil to Chui, the most southern city in Brazil. Just to illustrate this point, during this quarter, our fleet of trucks drove 22% more kilometers than the third quarter in 2019.

Looking more to the long term, our strategy will continue to be built around three pillars: Ambev as an ecosystem; innovation as a mindset; and business transformation enabled by technology. Today, I want to spend more time on innovation. We are making a deep transformation on our business to respond faster to customer demands and shifts in market trends. We are in the beginning of this journey to bring solutions to our clients and consumers, but I'm very happy to see that results are starting to come. We will continue to focus on consumer centricity, flexibility to create unique recipes with exclusive ingredients, a pilot testing and learning approach, the creation of an ecosystem that benefits, clients, consumers and suppliers in the logic of creating demand ahead of supply.

We have a framework for innovation where we are betting on five growth avenues. The first one, flavors and value propositions, looking for products such as Brahma Duplo Malte, which created its own space in the market and took over the leadership in the Core Plus segment and regionalization toward the affordable approach of the local supply chain. Second, health and wellness as the biggest opportunity for the future. Last quarter, we launched Stella Gluten Free and continue to test and accelerate Michelob Ultra in different countries. Third, convenience for our consumers with initiatives such as Ze Delivery in Brazil, Appbar in Argentina and Colmapp in Dominican Republic. Fourth, innovation in services for our clients, Dominican Republic continues to expand tricks in BEES serving as our laboratory market for the marketplace service. More than 75% of the net revenues there already come from the platform. And fifth Beyond Beer, we are exploring new territories in the ready-to-drink wine among other beverages.

As I said in a letter to all our colleagues in a Ambev in June, we are rejuvenating ourselves. Our market share in the new products that have been launched in the last three years is greater than our total market share in Brazil. This shows that innovation has been over indexing and will continue to be a key growth driver for us. Finally, as I mentioned in the beginning, the word that defines this third quarter is momentum. We are strengthening our bonds with our ecosystem and opening new perspectives for the future.

Thank you for your time and attention. I will hand over to Lucas.

Lucas Machado Lira {BIO 21526003 <GO>}

Thank you, Jean. Hi, everyone. After a very tough Q2, it was good to see our financial performance bounce back in Q3. EBITDA grew organically year-over-year in three of our four regions despite everything that COVID threw our way and how EBITDA grew was also quite positive with our four regions delivering organic top-line growth. In Brazil glass, in Canada, top line performance was driven by consistent volume recovery and in fact net revenue per hectoliter performance made the difference. We delivered a consolidated 12% volume growth with improvements from all our operations in Q2.

More importantly, volume recovery also translated into improvements in our financial performance. Gross margins and the EBITDA margins improved sequentially since Q2 in virtually all our business divisions. Normalized profit also grew year-over-year even though net financial expenses increased given exceptional gains in Q3 of 2019, increased carry cost in Argentina and the impact of tax litigation regarding the ICMS in the tax basis of the PIS and the COFINS taxes. Finally, cash flow generation nearly doubled, thanks mostly to our working capital performance and operational cash flows. This result further strengthen our solid liquidity position.

Profitability though remains the challenge. So let me comment on the main profitability drivers by business unit. Brazil Beer EBITDA margins improved sequentially mostly driven by the operating leverage resulting from our 25% volume growth reopening of the on-premise channel, growth of our RGB premium and Core Plus brands and margin accretive innovation. Year-over-year, however, performance was still negative. Channel mix remained factor, [ph] mix led to under hedged costs primarily FX and aluminum and SG&A was impacted by a combination of a tough COG given 2019 phasing, our decision to reinvest some of the savings from Q2 that makes sense given the strong volume recovery and also our desire to invest behind our key brands as we approach the summer. NAB Brazil was also able to increase the EBITDA margin. The main reason for that was an easy comp from last year's phasing of tax credit, but it was important to see the mix of single serve improve as the on-premise gradually reopened. Last was where margin performance continues to struggle the most.

In Argentina, the combination of price controls in food and beverages and hyperinflation continues to take its toll and on top of that Bolivia's slower recovery of the on-premise channel was also a factor. And finally, in Canada (inaudible), we were able to increase EBITDA margin this quarter year-over-year. This was primarily a result of volume trends and improve cost efficiency in Canada and revenue management and disciplined execution of our SG&A savings impact. The name of the gain going forward will remain continuous and consistent improvement. The base of our profitability recovery however will take longer because of the FX headwinds coming our way in 2021, but this is a priority for the entire organization. We know what we have to do in terms of top line, continues to grow volumes, the broad recovery of the on-premise and drive returnable glass bottles, grow Core Plus in premium brand and invest behind margin-accretive innovation, both in beer and Beyond Beer.

As for costs and expenses, we need to remain with our heightened financial discipline behind working and non-working money and leverage our technology investments in our supply chain and sales organization. More broadly, COVID generated a greater level of mobilization of the team, increased visibility and is challenging us to rethink how we run many aspects of our business from discounts management and cost management to resource allocation and return on invested capital. We still have lots to do, but after surviving Q2 and building momentum in Q3, we're definitely up for the challenge.

Time for Q&A and thank you very much.

Questions And Answers

Operator

(Question And Answer)

We'll now begin the Q&A session. (Operator Instructions). Our first question comes from Marcella Recchia, Credit Suisse.

Q - Marcella Recchia {BIO 21226398 <GO>}

Hi (Technical Difficulty) first one, basically a surging volumes of aluminum cans this quarter, which you in unhedged position in terms of aluminum and FX, right, which resulted therefore in higher than expected costs increase. So I just would like to understand if we can isolate the magnitude of this cost impact that your gross and -- or EBITDA margin. So meaning, in other words, what was your unhedged cost position this quarter and how much of this cost was above your hedged cost? And materialistic[ph] if we can connect that with your outlook amid the current constraint aluminum can and glass bottle supply environment?

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

With respect to the cost for Brazil beer in the quarter, a few things we already expected, right? So we already anticipated that the FX headwind would hit us, right, based on our hedging policy since last year. Number one. Number two, we already anticipated that the mix would also be a factor. Because as we saw in Q2, in Q3 we also saw year-over-year increase of mix of one-way packaging, particularly cans and that brings along with it an impact on our cost.

And then finally, what was unexpected was really that the weight of the growth in one-way[ph] year-over-year was greater than what we had hedged going into the year. And so we ended up having to face an additional cost because it was not hedged in advance, okay? Net-net, we estimate that the impact was around 90 basis points, just to give you a reference. So -- but for this additional impact, our EBITDA margin for Beer Brazil would have been 90 basis points better. And could you repeat again the second part of your question, please?

Q - Marcella Recchia {BIO 21226398 <GO>}

Yeah. How -- what's your outlook amid the current constrain in the aluminum can and glass bottle supply environment?

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

Sure. Well, I think number one, we're still ramping up our can plant, right? So we launched during the quarter our can plants in the State of Minas Gerais and it's currently ramping up. So as it continues to ramp up during the next couple of weeks and months, we expect that to play a role in helping us alleviate the supply chain pressure. Having said that, we do acknowledge that the supplies change pressure overall will continue in the country. What we're doing about it is, we're planning ahead and we're planning ahead trying to leverage our global footprint and our global footprint of suppliers to really to be as prepared as possible for a summer that we anticipate will remain putting pressure on the supply chain.

Q - Marcella Recchia {BIO 21226398 <GO>}

Got it, very clear. And secondly, very quickly if I may? Can you give us some color how much innovation or recent launch of projects such as Brahma Duplo Malte where relevant for your gains of market share this quarter?

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

So hi, Marcel, I can take this one. Yeah, so innovation is really a big part of our strategy. So we have been working on this for 18 months now. So building the capabilities, hiring people, redesigning the organization to have squads and to have innovation team working in each avenue of growth, and Q3 was particularly very strong where innovation really played a very important role. We believe that our volumes, the majority of it really came from our commercial strategy and a big part of it is innovation. And as you know, we just mentioned, Brito[ph] mentioned at the other call that -- I mentioned that Brahma Duplo Malte took over the leadership on the Core Plus segment. So what I can say is that, majority -- more than half of our growth really came from our commercial strategy, big part of it is the acceleration of innovations. And in Brahma Duplo Malte is the number one brand on the Core Plus segment.

Q - Marcella Recchia {BIO 21226398 <GO>}

That's very helpful. Thank you, both.

Operator

Our next question comes from Luca Cipiccia, Goldman Sachs.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi. Good morning, Jean. Good morning, Lucas. Thanks for taking my question. I hope you're well. I wanted to also ask something about the beer performance in Brazil. Evidently, 25% growth was quite dramatic move. I went back and I couldn't find the growth above 20% since the early 2000s, so definitely standout. But even if I look at it in absolute actually there's nominal levels, 20 -- almost 22 million, it's something that typically we see in fourth or in the first quarter in the summer quarter.

So my first question would be I understand some specific tailwind and some exceptional levels and standard -- Q3 didn't grow for the last five years. But even if I look compared to 2015, these numbers were about 7% higher. Can you help us understand how much the pricing discussion also played a role in relative terms compared to what the others have done in the market, but also there's an element of anticipation of orders if you've been eating into some of the fourth quarter volume? If you can quantify that?

And then secondly, on the pricing specifically you make reference to the changes that you've made and more (inaudible), what do you mean exactly? Price changes have been more targeted or more regional or you haven't done them at all or not much? And how should we think about this going to the end of the year, is it reasonable to assume that this year is about volumes, its about mix but its not going to be about pricing or its something that you leave open to changing market conditions or other factor? If you can comment first on these two points it will be great.

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

Okay. So let me start with the last one, let's me start first with the pricing. So I've been saying that we have been studying the previous Q3 and our pricing strategy, and we -- in the past we had been very disciplined, very rigid on our strategy and we just believe that we should kind of move to really have a strategy that could in the long-term bring more value for us. So we are being more flexible in general.

If you see, we are playing a different playbook across the countries. If you look at Dominican Republic, we are playing a playbook, if you see Canada there's another one, Paraguay, a different one and Brazil, different too. So we are being really looking with more variables to really understand how can this lever really bring value for our company.

So coming down to Brazil, what happened is really that we were in the middle of the pandemic, and we really tried to find the best moment for us really to go and recover a little bit of net revenue per hectare litre in a way that it could stick and it could be manageable by our customers and our consumers. But in the end, this is so -- looks like a little bit outside of the pandemic closer to the peak season, I think it was the right moment. But even though, I really don't think that that was a major change on the volumes of the quarter. Anything that we talked about the elasticity of pricing and volumes, I don't think that that was the major motive of the volumes of discount of this quarter. Mainly because it was really a -- finding one weeks, some weeks after what we did and needless the year. But it was was important really to make it more close to the peak season to really see in a way that it was more flexible, in a way that it was like protecting a little bit the own trade that is needing to get traction to you. And so we are very happy with this strategy that we are taking, okay?

So having said that, the volumes -- I think this call we are talking about momentum. So the volumes that we did it is not really a part of it is when we compare its about easy comps, but the point there is that we really believe that our commercial strategy is really working. And in the end, if you see this type of volumes compared they are more close to Q4 volumes. And if you seen that these a (inaudible) way, they are really, really strong volumes that we have -- that we have seen in the Q3. So majority of this growth really came from our commercial strategy.

Our portfolio is really in a much better shape that we had before. I point out the fact that we have seen the core very resilient, the pointer is that the consumers in the occasions that we have seen that arising during the pandemic, there is more relaxation, more in-home with friends, they are really benefiting the core. So a really big chunk of it is our core, is really getting more consumers and occasions than losing.

Our value strategy is really working through to with this market affordability that we have now going for five states. So the value, it is not -- so we're not seeing trade down, but we are performing well in the value. What we are seeing is really the core resilience. And then on top of this two things, global brand growing 40% and the innovations are bringing differentiation to the Core and really creating this Core Plus segments. When we put all of this together is really what we believe it is doing the 25% growth that we had.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Can you also justify that, so you don't think there was a meaningful element of Q4 volumes going to Q3 because there's an expectation that you're going to hit with the price hike and I better stock up now or if there was that consideration it was not material. Is that the right deposition?

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

So we monitor the level of inventory stocks in the market and that's definitely not what happened.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay. And if I may just a quick one, more of a holistic question and maybe an unfair one. But I wonder if 25% growth in beer volumes doesn't move the share price I don't know what will. And my hunch would be aside from market conditions and other factor is that, people are worried about margins or questions on where the margins will land as we move forward? We know that you're going to get hit by FX mix and some other element, but maybe there is less clarity on how much pricing or operating leverage will be able to offset that. So anything you can give us to let's say end core margin expectations within a reasonable range as we think about 2021-2022, that I think is what remains a major concern for investors.

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

So let me get the overall view of this question and then I will handle to Lucas for us -- it is a good question for us to talk about. So as we highlighted before, we were really forecasting about a V-shape recover, and we were really working on the volume, stay focused in strengthening the connection with our clients, renovating our portfolio, our commercial strategy is really working, we believe we have momentum. So that's -- we are gaining momentum so that we are confident on that, okay?

So this was a particular Q3 in Brazil quarter that we delivered strong top line resulting with EBITDA growth year-over-year and sequentially EBITDA margin improvement. So this was a quarter that we were very happy with it, because we could overcome the pandemic and the impact of mix and the initial impacts of the (inaudible) with our commercial strategy that really sticked and repaid with the top line and had a better growth year-over-year.

So as you know it is important so we have significant transactional FX headwinds moving forward. But in the end we will continue and work with our long-term view working on the volume recovery. So you have to understand that I already had 10 million hectoliters more than I had last year. So that's a number that from our peak volumes in 2014 that will help us in this recover in a sustainable way of margins. So own trade were opening and so -- its halfway still, so it is really something that we begin so it -- we believe it will come. It's not structural, we believe it will come back.

So the Core Plus and premiumization strategy will bring us -- a way for us to mitigate what we are seeing in the short-term of FX headwinds, and the continued of a strong innovation pipeline. Now, on top of that, strategic CapEx investments on technology footprint, we are working on all of that for us to mitigate the impact on the currencies. But just to make it clear, so this Q3 was a shape that we liked it, a strong top-line mitigating the profitability issue with EBITDA growth and really having sequential EBITDA margin still with a lot of opportunity to move this forward.

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

Thank you, Lucas. As to the first first part of your question, we really can't comment on the share price and share price movements and reactions, a multitude of effect go into that. It's ultimately for the market to decide what the price of the share should be. What we can comment on is what we're trying to achieve as management, okay? And that is to continue to improve our results, right, consistently overtime, this won't happen overnight. Q2 was very tough, we survived. Q3, we think we're starting to build good momentum. We have to continue to deliver by executing our strategy, we're constructive on the business opportunities we see, we're constructive on our portfolio where it is today, we're constructive on our team and their ability to deliver. So that's going to be our focus going forward. What the share price will be, the market will decide from time to time.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Absolutely. Thank you. And I wasn't expecting you to comment on the shift. I was just channeling as a way to refer to concerns or questions around the margin output. So totally fair, and thanks for the questions. Very clear. Thank you.

Operator

Our next question comes from Thiago Duarte, BTG.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you. Hello Jean, hello Lucas. Hello, everybody. I've got three questions. The first one is certainly back to the discussion on pricing. I think it's clear the flexibility that you're trying to implement on your price policy, but the -- one aspect that call the attention here was as we try to combine effective price increase with your revenue management, particularly how you played discounts over gross revenues, right? So looking at the financials, particularly when you look at the parent company level for Ambev, discounts were pretty low relative to the levels that we have been seeing for several quarters now.

So just wondering -- you discussed that in the past, so just wondering whether you think discounts can go even lower as a way -- as a tool for you guys to play pricing with customers or whether they should be seen as a one-off or something like that? So if you comment on that, it would be nice.

The second part of my question is on brand performance, right? You guys brought in the release some comments about -- and I'm talking about Brazil Beer here, some comments about international premium brands performing really well Core Plus with Brahma Duplo Malte performing really well. So just wondering how your core portfolio -- your core brands performed in the quarter? You mentioned it was resilient, so just if you could situate us a little bit in terms of how they did relative to the average of the portfolio, it would be nice? And the third questions is on dividends. You guys, if I'm not mistaken, this is your all-time high net cash position that you guys reported for September. So Luca, if you could comment on your dividend policy whether we should expect it to be similar to what we saw last year when you guys paid the entire fiscal year related dividend one time or something different, it would be nice to update as well. Thank you.

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

Okay. So let me get the one on the discounts and resilience of the Core. So, yes, we are -- when I mention that long-term wise, we really want to follow the inflation on the price increases is really our long-term view, so what we want. And on top of that, you have many factors that did not -- that does not affect consumers in it, so there is this part of the channel mix, this part of packaging mix, discount optimization. So we have -- we are working a lot on other levers to guarantee that our price conduct is the one that we really be inclusive with consumers, guarantee a healthy industry, but we are working a lot on other levers for us to have a better profitability in the futures.

So we are studying the price -- the decision of the price much more on the macro economic scenario, elasticity is mixed fence. But in the end what -- we have another levers moving forward that we believe that we begin to play in our favor. That is the channel mix moving forward should be something that would be positive for us and the brand mix that is something that we have been talking, but we are really seeing it with more strength right now mainly because as I mentioned before, the core is resilient.

So what we are seeing, so if I can give you some numbers. So we had 25% of our volume growth. So the core was pretty much -- when we put Core and Core Plus together, they were pretty much in line with that. The premium was global brands growing 40% and then we -- the value, it was really under indexing in growth, but gaining market share. So this is the equation that is a good equation for us, core resilient with innovation, Core Plus helping on this equation and then premiumization on top of everything and a healthy value gaining market share, but do not really impacting that much down.

The mix -- the part of the mix and discount is an opportunity. So I mentioned to you. So its a broader view of that, okay? So what we see is that, we are already selling to 10% more customers that we sold pre-pandemic. Because we are really getting linear. So, we have been the reliable supplier and we are across the board looking for more customers, more (inaudible) cost of customer, so there is less of intermediates on this process and then you have opportunity to -- on the discount optimization when we have this mix of customers really moving in the right direction. Core Plus is positive and region mix is something that usually is less (inaudible) because we are really growing in Northeast, North and Middle East. So opportunity discounts, opportunity in Core Plus, so the resilience of the core performance when we put everything together in line with the total volume and the decision on pricing that affect consumers really -- looking at more variables and really having the right moment to do it.

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

Hi Thiago. With respect to your last question. Starting first with the cash position. The cash position that we ended up in the quarter is the result of I would say, three main factors.

Number one, the liquidity cushion we built during the second quarter, because of COVID, okay, and that liquidity cushion is something that we're constantly assessing based on what's going on in markets and in our business and the needs. So that's something that we will continue to monitor very closely.

We still live in a fairly volatile, uncertain and fluid reality across our market. So even though we survived Q2, building momentum in Q3, we're not out of the woods yet, right? A lot can still happen and a lot can change rather quickly. So we think a good dose of prudence is still warranted, okay? But that's something that we'll continue to keep on our radar and monitor. The second thing is currency translational adjustment. This is basically a result of the cash positions in our foreign operations and given the devaluation of the Riyal versus the U.S. dollar when you translate the balances, right, it creates an impact. Okay, and then the third one is really the strong cash flow generation that we had in the quarter, which was great to see. Okay. So that's kind of where we ended up in terms of cash and the main drivers for it.

As for dividend, as you will know, the Ambev's bylaws do provide for a mandatory dividend of 40% of our adjusted annual net income, okay, so it's always good to remind folks of that. When we think of use of cash, our thought process may -- remains the same, okay? So number one, we invest in the organic growth of the business. We continue to see opportunity and we will continue to invest behind growth. Be it CapEx, be it investing behind our sales and marketing to further strengthen the portfolio that we're trying to create and strengthen and further develop. Number two is investing in non-organic opportunities that may pop up from time to time. Obviously, hard to pinpoint if and when they will happen, but we see value in retaining the flexibility to be able to pull the trigger and invest resources behind that. And then last but not least, return excess cash to shareholders.

And in doing so, we will continue to focus on maximizing the IOC payout, given the deductibility that comes along with it. So that remains a priority when it comes to returning excess cash to shareholders. And the balance is going to be a combination of potentially dividends and share buybacks, depending on kind of a multitude of conditions that we evaluate from time to time together with the Board. So, this is an ongoing discussion towards the end of the year, once we have finalized our budget, have a clearer view of our plan for 2021 and beyond and taking stock of kind of where we see the environment going forward, we will make a recommendation to the board and update the market as needed.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you so much.

Operator

Our next question comes from Robert Ottenstein, Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much and terrific progress. I'm wondering if you could go into a couple of things, just trying to trying to get a little bit of the sense of the sequential improvement or changes. And that is, is number one, returnable glass bottles as a part of your mix, I don't know if you can kind of give us a sense of what they were in Q1, Q2, Q3, really trying to get a sense of that sequencing? And then second, any color on Ze Delivery, you gave us some numbers in prior quarters. Loved it. Kind of see where that is, how that's growing and progressing? Thank you.

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

Okay, Robert. So talking about returnable bottles and can. So we saw a sequential recovery in RGB mix in this quarter mainly by this strategy that is really picking up of small RGB for in-home consumptions in Moms & Pops and small off trade, that continues to gain traction. And this is just to make a comment to the question of Duarte too, this is a important piece of the resilience of the Core, there is more RGB 300ml strategy to go over in-home occasions.

So in September, the 300 ml RGB is already growing and getting more traction than cans for example. And on top of that, we foresee that the reopening on the on-trade channel that it will really help us to continue to grow on the RGB. So what can I say, we are more or less half way what we lost and -- but gaining traction with the reopening of the on-trade and the RGB strategy moving forward. So that's pretty much where we are in the RGB.

Ze Delivery doing very well during this pandemic, we have a great window of opportunity in Brazil to really take customer engagement to the next level, consumer engagement to the next level, its really something that we have been working for five years on that. And we are seeing all coming together with a big window of opportunity for us. The Ze Delivery particularly delivers cold beer one hour at home, it was really important in this moment of the pandemic, really solves our consumer pain points. We are in more than 27 States right now and we reached 200 cities and aggregating cities more and more. And what I can say it is that we did in this quarter six times what we had in the previous-year. So it's really accelerated, really something that's solving a lot of consumer issues.

On top of that, seeing that we are really again talking about technology. So we have the marketplace coming, it's -- we called this. We are really piloting it and using Dominican Republic as a laboratory, but it's already arriving in Brazil. So we are really enhancing our platform with our customers' digital connection, customer satisfaction in another level. We are really seeing the engagement of our customers in Brazil really going up with the arrival of (inaudible), that's the marketplace that we're going to bet for the future. There's another great opportunity that we will be talking in the next quarter.

Q - Robert Ottenstein {BIO 1498660 <GO>}

If I were to kind of guess Ze Delivery in terms of getting to 5% of your business in five years, would that be low or high based on your best assumptions?

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

So Robert, what I mentioned -- I mentioned this in another calls, our DTC strategy should lead us to 10% of our total net revenue in five years. And Ze Delivery is a very important piece of it, it's not alone, but it's very important piece of our strategy.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much.

Operator

Our next question comes from Lucas Ferreira, Bank JP Morgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Hi. Good afternoon, gentleman. I have two questions on the consumption environment in Brazil. The first one is about the (inaudible) share, you mentioned there (inaudible) its been one of the supporting factors of decision volumes. We are seeing already in decline in the (inaudible) out of 1600 to 200 Riyals and are we starting to see some other supermarkets associations explaining that this is already backed themselves. So I can also really see very high fuel inflations. So wondering, if these two factors are already having some sort of impact in sales as of say, October or September (inaudible)

And then my second question, you also mentioned you believe that the number of active clients you have right now is the same as the pre pandemic. And I remember discussing a lot of this with the association of the bars and restaurants that they were expecting initially sort of 30% reduction in the number of point of sales, something like this. So I'm wondering if you can comment on service how (Technical Difficulty) how (inaudible) in the context of owners[ph]. And if you could talk about it if this is kind of surprising you to be upside or not -- I don't know if you can comment on the on-premise please?

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

Okay. So first of all, so as I mentioned before, this quarter was a quarter that we are very happy with the volume performance and the momentum that we have. And we are really focusing on things that we can control and majority of our performance, more than half, it was really about our commercial strategy, things that were in our hands. So acceleration of innovation, the resilience of the Core. So the new positioning of Bohemia is really gaining traction in the North and Northeast. So global brands really growing fast, 40% operational excellence in improving service level across the country. So these are the things that really brought the majority of our volume growth in Q3.

When we put together the corona voucher, together with the disposable income that went down and the shutdown of bars, so this thing is really something that is important but is not net-net that big. The Corona voucher alone is important, but when we put all these things together, it is important but it is not that big. Another thing that's really helped the industry, it was really our pricing calendar, our flexibility in doing the right moment I think somehow expanded the industry a little bit. But when we put the quarter together, majority, 60% -- more than 60% of our performance we really attribute to our commercial strategies, things that -- it's in our hands, okay. So this is one thing.

So talking about channels and customers. So yes, I mentioned that we are already selling for 10% more customers that we usually sold pre-pandemic. So we are really seeing the Moms & Pops is really -- and the small formats off-trade are the big winners. So they are really -- with volumes up more client, so we are reaching more, so we are more prepared to deal with them our strategy of digitalization and getting orders online is really something that is helping on this process, is really a competitive advantage that we have. We already see bars on the same level that we had pre-pandemic, but still with the occasion that's number of tables and restrictions in terms of opening hours, really still making less of a volumes in the channel. But we see number of clients in the channel already in the -- on same level of the pre-pandemic.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you, Jean.

Operator

Our next question comes from Ricardo Alves with Morgan Stanley.

Q - Ricardo Alves {BIO 16840901 <GO>}

Hi, Jean and Lucas. Good morning, everybody, and thanks for the call. A couple of follow-up questions. The first one. Back to the channel mix, kind of related to this last topic. Based on the chart you've shown it would be -- it seems that Brazil went strong 70% off-trade to slightly below 60%. Now, in the third quarter if I'm not mistaken, it's a pretty big move. So, could you talk a little bit about that?

I mean you talk about how the bars and restaurants are kind of ramping up, but talking specifically about your exposure to the on-trade. I think that would be helpful way to train[ph], if perhaps it's all major improvement in September versus July and August or maybe to see more of that now in October. I think that that would be helpful.

The second question is also a follow-up on the premium side, also in Brazil. You mentioned I believe, premium growing in the double-digits and now on the call you mentioned a 40% growth for global brand. So just want to see if you can give a little bit more color on the other stuff as well, for the domestic brands. How they're performing on the margin with everything that you just said on the restaurants and bars, if you see signs of improvement on that specific segments as well? Thank you so much.

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

Okay. So let me get little bit more information on that. So our sales mix for Brazil Beer in Q3, it was divided in 42% on-trade, including small Moms & Pops and 58% off-trade. So by comparison, in 2019 on-trade was around 55% and off-trade 45% in the same metric. And in Q2'20, on-trade was around 30% and off-trade 70%. So we are more or less half way in the mix that we had in the past.

Even though we have seen the on-trade gradually reopen in the number of clients of the on-trade already in line with the pre-pandemic, bars are not operating at full capacity due to social distancing safety measures. And mainly, and the most important, the VIP, so the more -- the bars that are more important urban centers. And on top of that, consumers are still reluctant to fully return in the same pattern that they had before, okay? So the bars are there, the number of bars are working, but the occasion is something that it is not completely there. When we think about channel mix and the impacts of occasion, we are halfway returning in the back -- for what we have in the past.

So having said that, our global brands are doing very well, 40 % growth averaged with Corona impacts growing much ahead of that, because they have a footprint that they can go off-trade, they can grow in-home. When we talk about premium the big hit that I have in my portfolio are two brands, that is (inaudible) Brahma. There is really one related with the occasion that is not there yet -- the occasion. And the original big bottles, 600ml that they are really the two most important brands of this occasion, there is socializing out of home in bar. So this one are really still not there, but global brands Budweiser, Corona bags, long-necks, cans and we can go off-trade any home, they are very (Technical Difficulty)

Q - Ricardo Alves {BIO 16840901 <GO>}

That's helpful Jean. Thank you. Just a quick follow-up. On premium, when you talk about double digit growth for the whole category, are you trying to say that it was more or less in line with your consolidated Brazil Beer volume? Hello?

Operator

Excuse me Mr.Jereissati, your line is open. The Q&A session is closed. I would like to turn the floor over to Mr.Jean Jereissati for your closing statement. The Ambev's conference call is finished today. Have a nice nice day, and thank you for using Chorus Call.