Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Carlos Laboy, Analyst
- Isabella Simonato, Analyst
- Lucas Ferreira, Analyst
- Marcelo 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's First 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 that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Ambev's remarks are completed, there will be a question-and-answer session. 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 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. So they involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ambev and could cause results to differ materially from those expressed in such forward-looking statements.

I would also like to remind everyone that as usual the percentage changes that will be discussed during today's call are both organic and normalized in nature. And unless otherwise stated, percentage changes refer to comparisons with first quarter 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 Mr. Jean Jereissati, CEO for Ambev. Mr. Jereissati, you may begin your conference.

Jean Jereissati {BIO 20161989 <GO>}

(technical difficulty)Thank you very much for joining our call.

In February, I mentioned that 2021 would be a challenging year, and COVID-19 pandemic was still very real. After that, we saw a steep deterioration of the sanitary conditions in Brazil, coupled with increased mobility restrictions, which impacted our people, customers, suppliers and consumers.

At the same time, we were better prepared this time around. As a result, we delivered a great start of the year. We grew EBITDA by 23.8%, the reason why double-digit volume and double-digit net revenue per hectoliter growth in Brazil, CAC and LAS. Consolidated volumes were 5.4% above Q1 2019, and we were able to get back to flattish EBITDA versus Q1 2019.

This was another quarter we saw clear signs that our commercial strategy is working and that momentum continues. I was very happy to see this strong performance of our international operations. And Brazil continues to show that we are in the right path. We delivered volume growth in 8 of our 10 markets and market share gains in 7 of these markets.

We saw a solid net revenue per hectoliter growth in the quarter driven by a more flexible and efficient revenue management initiatives, including occasion-based promotional activities. We continued to strengthen our portfolio as we launched innovations across our markets.

To name a few, Golden Extra in Panama, Bud Light Seltzer in Canada, and Michelob Ultra in the premium segment in Brazil. LAS delivered strong volume growth in the core plus and premium segments, with a great performance of Corona.

In Argentina, we had an outstanding volume performance and improved net revenue per hectoliter delivering top line growth of 67%. Tough restrictions were partially lifted during the quarter that combined with the good performance of our above core portfolio and effective revenue management initiatives delivered the top line growth of 28% led by Dominican Republic and Guatemala.

Canada gained market share and grew volumes despite a tough comp in Q1 2020. Growth was led by Hard Seltzer's and the above core beer portfolio, with Michelob Ultra and Corona. Brazil beer volumes grew 16%, despite carnival cancellation in February and tougher mobility restrictions imposed in March.

According to our estimates, we gained market share while growing volumes in all segments, with a special highlight to our global brands that had a solid high-teens growth. In Brahma Duplo Malte that continued its growth momentum. Brand health of the portfolio improved once again in all segments this quarter. And our digital initiatives, continued to expand Ze delivery fulfilled 14 million orders in this quarter reaching an all-time high in March.

Net revenue per hectoliter growth was strong again. This growth was mainly driven by effective revenue management initiatives. BEES also had positive impact as it helped to standardize and increase efficiency across our portfolio.

Today, I would like to further focus on BEES, our super app for our customers. We believe that BEES has been important to deliver a strong commercial performance, as it digitizes our route to market, enables our customers to place an order in three clicks at any time of the day, and offers assortment selections to box using algorithms.

On top of that, BEES offer other services such as financial services, the scheduled delivery, rewards programs, and other products via marketplace providing a full e-commerce experience to our customers.

Since our decision last year to launch BEES in Brazil, we managed to roll it out to all our DDCs and wholesalers. As a result, we now reach more than 65% of our active customers in Brazil via BEES, accounting for over 550,000 customers and we generated more than BRL6.5 billion in GMV.

Given this promising early results and to further boost the platform, in March, we announced that Menu.com, our start-up marketplace for bars and restaurants that had been accelerated by Z-Tech for the past two years will be integrated into this ecosystem. Today in Brazil, we offer more than 100 SKUs from approximately 31 partners in 380-series already, reaching more than 5% of our net revenue in some of these locations. Our platform's scale will open many new opportunities for us to grow together, with our customers and our partners.

Our platform's scale will open many new opportunities for us to grow together with our customers and our partners. Our digital platforms will be fully connected throughout our operation, integrating with and leveraging on our existing supply chain, logistics and sales capabilities.

As our digital transformation evolves, we will enhance each step in our supply chain and become more flexible, efficient and integrated with our partners, customers and consumers improving our NPS throughout the ecosystem.

As for the rest of 2021, our outlook remains unchanged and we continue to expect a challenging year. COVID-19 is real and around us and cost pressures will continue mainly in Brazil, not only thanks to effects, but also to commodities prices.

With that said, I remain very confident in our people, our capabilities and plans for 2021. Overall volumes at Ambev continued its performance in April and net revenue per hectoliter performance will remain a focus. Especially in Brazil, given the inflationary scenario we are living, we expect our top line performance should continue to drive our recovery, growing ahead of bottom line, as we work to get back in the full year to the normalized consolidated EBITDA of pre-pandemic levels.

Thank you very much. Thank you for your time and attention. And I will handle this over to Lucas.

Lucas Lira {BIO 21526003 <GO>}

Thank you, Jean. Hello, everyone.

This time last year, our financial performance was marked by declining net revenue, declining EBITDA, declining normalized profit, and declining operational cash flow generation. What's worse, we were still in the early days of the COVID-19 pandemic.

What a difference a year makes. In Q1 2021, net revenue grew nearly 28%, EBITDA grew almost 24%, normalized profit grew close to 125%, and operational cash flow grew close to 84%.

Brazil beer performance was strong and the growth of our international operations was even stronger. Just to put things into perspective, all these indicators are either at or above 2019 levels in nominal terms. And in terms of outlook, even though COVID-19 is still around, I believe it's fair to say that things are not as gloomy as before. Quite the contrary, we expect recovery to continue as vaccinations pickup.

So I'm proud to see that not only have we navigated the crisis well so far but more importantly that the commercial momentum we started to build in Q3 2020 has continued to translate into consistent improvement in our financial results quarter-after-quarter.

We have two big priorities on the finance side. Number one, continue to protect liquidity given the still volatile environment. And number two, improve our return on invested capital. The team has done a great job since last year in terms of protecting our liquidity position, which remains solid in each of our markets, while still investing about BRL1.3 billion in CapEx in the quarter.

Most of this investment was directed towards increasing our brewing and packaging capacity, particularly in Brazil to support our innovation pipeline. And the second biggest bucket of investment was in technology such as our ERP integration designed to among other things, support our B2B and B2C platforms.

And in terms of ROIC, there is a lot of work going into improving resource allocation, as well as improvements in working capital. But there is no doubt that one of our biggest challenges remains the recovery of our profitability.

FX headwinds will remain as our biggest hurdle throughout the year, particularly in Q2, whereas one way package mix and commodity pressures should also be a factor. In addition, cash SG&A was higher in Q1 mainly due to provisions for variable compensation, given the stronger-than-expected start to the year.

Since 2020 was a zero bonus year, should our performance remain on track, provisions for variable compensation should continue to impact our year-over-year SG&A performance going forward.

On the other hand, this stronger than expected top line performance should help offset higher SG&A for the remainder of the year. And we will keep focusing on our productivity initiatives and typical financial discipline regarding cost and expenses management.

Yes, we will continue to work hard on improving our profitability, but we will not lose sight of the long-term. The sense of urgency is there but we have to be disciplined and stick to our commercial plan, which after all has been working.

For us the name of the game still is continuous and consistent improvement of our results. We have been on this improvement journey since the second half of 2020, and Q1 was another important step. So there is definitely more to come.

Finally a quick word on ESG. In June, we plan to host a webinar to focus specifically on how we have been working to embed ESG into our company model. I hope to see you all there.

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

Questions And Answers

Operator

Thank you. Now we will begin the Q&A session. (Operator Instructions) Our first question comes from Mr. Maurice [ph] with Santander.

Q - Analyst

Good afternoon and good morning, everyone. Congrats on the impressive results for first quarter. My question relates to market share trends per segment. So, you mentioned you gain -- especially in Brazil where you gained share in all segments. Can you give us a little bit of color on the super premium and the premium plus core value segments? What's going on over there? Thank you.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. Thank you for the question. So yes, we feel that our portfolio is much more prepared. We went through (technical difficulty) fleet renovation, launching of new brands, resource allocation, betting on brands that really could drive this future and our performance of global brands, specifically they were quite double-digits. So it was close to the '20s. And this is what we believe it is the - above the performance of the premium segment, overall performance. So that's why we mention that.

We have been investing for a while in Budweiser (inaudible) and more and more we are seeing Beck's with a very strong performance and we have seen Corona doing better too in colorectal. So these are our top five brands that we are really investing for the future and they are really doing well.

Specifically, Beck's is growing triple-digits growth. Corona is growing on the 50s. Colorado doing very well on the in-home occasion. Juice suffering a little bit in bars, but doing very well on the off-street.

And on top of that -- on top of market share, something that we are looking a lot now is really equity of our brand that we really have to push equity ahead of market share, push to make it -- to make the pool and to build brand equity. And brand equity of premium brands are really moving much faster than the market share and our plan. So that's important KPI for us that we are very confident.

Q - Analyst

Thank you, Jean. What about the core segment, any color on that?

A - Jean Jereissati {BIO 20161989 <GO>}

Yes. So the core segment, since the beginning of the pandemic, I have been -- that was a information that I brought to you all that the core has been very resilient. And we have been really reorganizing our portfolio, creating the Core Plus segment and really launching back innovation in different packs on the core segment. And after years of volume decline, our core segment was really marked by resilience, with Brahma Skol and Antarctica families growing by high-single digits.

So this is the combination of the RGB 300 ml bottles, that we are really focusing during the pandemic as the pack that moms and pops and bars can do the delivery, can do the takeaway. So it's an important part that's really accelerating the core brand. And on top of that, the normal price strategy that we have been following.

So core brands really bounced back. On top of that, the Core Plus segment, there is Brahma Duplo Malte, that's Bohemian. They are really on fire.

Q - Analyst

Okay. Thank you very much.

Operator

The next question comes from Carlos Laboy with HSBC.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes. Good afternoon, everybody. Congratulations on really strong results. I'm wondering what have you learned about Brahma Duplo Malte through this period? And how do you drive that brand going forward? What consumer insights have you gleaned as you sit back and reflect on everything you've learned here for what's next there?

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. So thank you for the question, Laboy. You know, Brahma Duplo Malte which they -- that was really the brand that the products that we took one year to develop. It was really, really tested with all the consumer cites. So we have this mindset of really had -- really get superiority on all the analysis that we were doing of bearing with core and really get inspired by another categories like for example, whiskey that has double-malt, single-malt and everything. It was amazing how the Brazilian consumer got -- sticked with the concept of Duplo Malte of two malts that they combine. And we were able, really to develop a liquid that it's -- it really calls attention on the mouth and on the eyes because it's really creamy and has a mouth, a great mouth taste.

And all this process has been like for one year we've been doing that and then we decide really to, first, to bet on the flagship brand, so we are really talking about Brahma. That had Brahma Duplo Malte and Brahma under the family umbrella. So we are really Brahma is the brand and Brahma Duplo Malte is the flagship product. And we're rolling on that. So we really get, in terms of resource allocation, so we beat the passion point. The Brazilian passion point is more relevant for the future.

We have too football in the country. And it gets connected Brahma Duplo Malte with the most important passion point that we had. And we have been able to work as a family. And the good news is that Brahma is speaking back and is growing together with Brahma Duplo Malte. At some point in time, we would think about some type of standardization. But the whole family is really moving. We are very excited about it.

Q - Carlos Laboy {BIO 1506984 <GO>}

Thank you.

Operator

The next question comes from Rob Ottenstein with Ernstein.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Robert Ottenstein with Evercore. Thank you very much and congratulations to -- for a great start of the year. A couple of -- sort of follow-up housekeeping items.

Number one, it looks to us, Lucas, that you didn't reiterate the guidance on the COGS being up 20%. Is that correct or am I missing something? So that's number one.

Two, just a follow-up on the Brahma Duplo Malte question. And that is, I believe that launch last year, biggest innovation you've had. Where are the comps toughest for you on that launch? So just kind of two housekeeping items there.

And then kind of the bigger picture question is, how do you see the Beyond Beer market and business developing for you? It was a big theme for Brito on the ABI call today. Obviously, a lot of interesting stuff going on that side in Brazil. I'd love to get a little bit more detail on your thoughts on that as well. Thank you.

A - Lucas Lira {BIO 21526003 <GO>}

Okay. So thank you for the question, Robert. So yes, about the cash COGS, our guidance was in low '20s for Brazil Beer for the full year. There is -- so this quarter we had higher than the full year. But it was already expected, even the curve of the hedges that we have in Brazil. For Q2, we will continue to see cash COGS above the full-year guidance for the same reason. But we are not making any changes to this guidance, okay? So this is one.

The second thing, it is Brahma Duplo Malte. Let me give you a higher view on that. So what we are aiming is really to have a pipeline of innovation that really can transform my portfolio in the future and is already been transforming the company.

So one KPI that I look every time, it is what is the percentage of my net revenue that come from products that did not exist three years ago? So it was -- this number was 5% in 2018. It went to 10% in 2019. And we reached 20% in 2021. And we are looking at this number for us to continue this trajectory.

We have a strong view about where -- what are these spaces, what we want really to create? It's not just about these type of innovation. So we have a framework with right avenues that we want to launch and maintain this momentum of 20% of our net revenue coming from products that didn't exist three years ago.

So one more information. So the tough comps of Brahma Duplo Malte, the peak, it was really the Q3 where it was really the moment that we are freight loading and putting everything on the markets. But what we see is that this number of innovation, overall, it should not change, this 20% that I want to go moving forward.

So we have a pipeline that they are coming. So, Brahma Duplo Malte still has some geographical rollout in some new packaging -- packages, new occasions for us to work on that.

And there is one important product on the Core Plus side that we have been piloting and we are very excited. It is really coming to the rollout phase right now. There is one international brand.

Having said that, Beyond Beer, is really something that we are into it. We are very excited about our Beats brand, and the partnership with Anitta. We just launched it. We launched GT under Beats and then we launched Zodiac. And there is this family of brands that they are very accretive, very incremental, doing very well. And we have three or four pilots are happening right now for us to learn and decide where to launch.

So we are testing our sales hubs. We are in the pilot phase. We are testing Mike's Hard Lemonade. That is something that is a little bit with this juicy and natural flavor. And we are testing this fancy cocktails in cans.

So there is -- in Beyond Beer, we have like four avenues that we are on full speed on Beats, and we are on the pilot phases on the other two.

A - Jean Jereissati {BIO 20161989 <GO>}

And then just to add something here on our international operations, Roberts. Beyond Beer is already a reality in Canada, for instance. And the quarter showed a very good results. yet again, from our Beyond Beer portfolio. Not only thanks to Nutrl, right, which we partnered with last year and showed consistent growth throughout last year.

But in the quarter, we launched in Canada, Bud Light Seltzer. Early days, but off to a very good start as well. So I think that's one additional benefit that we have to be able to learn from the Canadian operations and roll out these learnings to other Ambev markets

A - Lucas Lira {BIO 21526003 <GO>}

I wanted to give a little bit more information, Robert. So you know that we acquired a winery in Argentina last year to have the capability of playing with grapes, with winery. So it's a business that in Argentina now is growing 16% compared with what we bought. And now we are really building the capabilities of putting wines in cans and we need to test this across the board in South America.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Terrific. Thank you very much.

Operator

The next question comes from Thiago Duarte with BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you. Good afternoon, everybody. I have two questions on the revenue per hectoliter in Beer Brazil, and then a third question on the brand portfolio.

So the first question is, -- can you talk a little bit more about how you managed the decision on the discounts in the Brazilian beer division? Since the third quarter last year we have seeing discounts coming down considerably. It's certainly been an important push to revenue per hectoliter growth.

So just wondering how are you -- what were the conditions that allow you to more aggressively cut back those discounts during the pandemic when it comes to channel package and the competition changes that the pandemic brought to the business? So I think it would be interesting to hear.

The second question is, if we -- as we look into the revenue per hectoliter growth in Brazil Beer, 12.6% year-over-year. Can you help us break it down in terms of some of the main impacts that you had on a year-over-year basis? I'm specifically looking to hear in terms of the impact of the Carnival or the lack of Carnival this year, and the digital initiatives such as Ze Delivery in these, that would be nice as well.

And the third question, Jean, you mentioned in your opening remarks that the brand health of the portfolio has improved across the whole portfolio. So if you can elaborate a little bit more on what sort of metrics you're looking at when you make that statement? And how your brand preferences stack up against market share in each segment, that would be interesting too. Thank you.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. So let me -- give me one minute for me to kind of put this on the paper for me to -- I lost the second one.

A - Lucas Lira {BIO 21526003 <GO>}

The second one is breakdown by driver, net revenue per hectoliter.

A - Jean Jereissati {BIO 20161989 <GO>}

Third one?

A - Lucas Lira {BIO 21526003 <GO>}

The third one is brand portfolio, elaborate power versus share by segment.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. So if I miss something, Duarte, we'll go over it.

So, yes. So for a while I've been mentioning previous quarters that over the long run, overall prices should grow in line with inflation. And this we are talking big time here on shelf prices. And then plus and minus you have, efficiencies of discounts, you have branded channel mix and then we have been backed of our portfolio strategy mainly. So we know the channel.

So these are things that -- we break it down prices like that. And we have been much more flexible, nimble, agile in terms of revenue management to react to market conditions. We are in the middle of the pandemic still, so channels are really changing different, what's growing. So transformation, we know that you have to support.

And so we really went deep on revenue management. And specifically, this piece of discount, I think some things happened. First of all, this is helping us big time, okay? It's so granular. We have a big chunk of our volumes already to BEES. You have like better algorithms. We have better priced BEES, because everything is really digitized and centralized. So it's really creates a framework, a easy framework for us to really understand the listing and the discounts and everything. So this is one thing.

Second thing, we are more linear because of that, okay? So we are kind of more -- less concentrated for everybody to have some access to the return in terms of discount. So we are trying to get this a little bit with more standards, and we were able to make it.

So we really moved this lesion off a lot of discounts to trade into a much more discounts connected with sale out and connected with occasions. Okay. So we are really with my strategy where -- for example, Brahma Duplo Malte, so the promotions should be correlated with Barbecue and it should be the discounting. This is specific occasion for all the products.

So we are really narrowing the brand building and expanding occasions and giving discounts on that direction. That is helping us to be much more effective. Okay.

So these three things I would say that they were the drivers for us to really upgrade our discounts management and our discount efficiency, okay?

So talking about brands -- talking about the brand. So the metric that we are really looking into it is really power. So it's a combination. So it's props of our -- is more than preference because it's a combination of -- it's a proxy for the market share of the future, okay? And we have a big portfolio and we decided to kind of really elect inside this portfolio which are the brands that we are really concentrate exports for the long term for them really to become leaders. And we have with this strategy of really concentrated in that on some brands.

And we have the label we need to drive the brands that we believe that we need a few in the future big time. So it's -- we are very excited that Brahma Duplo Malte is doing very well. It's really growing together. We are excited that Skol kind of stabilizes at some point. I mentioned this in terms of volumes. We understand this in terms of on the brand side too.

And then we have the premium business. As I mentioned before that the combination of that five thing that I have, they are really moving ahead of my market share. So really basically very helpful and obviously in Corona.

So when we put all these things together, so we -- our total portfolio of API is gaining in this metric that we are looking. There is power with the focus brands really gaining even more. And in the brands that we were suffering in the past, they are kind of stabilizing. So this is the type of equation on the equity that we are seeing in the market.

A - Lucas Lira {BIO 21526003 <GO>}

And then, Thiago, this is valid across segments. And also, if you look at the film since last year and not only the quarter performance, right? I mean brand building takes time, right, requires consistency and one of the things that we're seeing is really this gradual, right, improvement in our brand power across segments for the portfolio ever since last year.

Q - Thiago Duarte {BIO 16541921 <GO>}

Perfect. That's very helpful. And just one part of one of my questions. Is it fair to say that the Carnival should have had an impact in terms of how you translate revenue per hectoliter in the year-over-year basis?

A - Lucas Lira {BIO 21526003 <GO>}

So, if I had Carnival, I would have net revenue per hectoliter that was smaller than that. So that's the question?

Q - Thiago Duarte {BIO 16541921 <GO>}

Yes.

A - Lucas Lira {BIO 21526003 <GO>}

Let me see. I think if I had Carnival, I would have a mix of packaging that it was worse than what I have today. Because it's more concentrated on weekends.

So I don't see an impact on the pricing side. If I had Carnival, I would have something around 1 million hectoliters of cans selling in the market. I think that's how we should approach Carnival.

Q - Thiago Duarte {BIO 16541921 <GO>}

Yes, that's a good exercise. Thank you.

A - Lucas Lira {BIO 21526003 <GO>}

Less about price and more about packaging mix.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you.

Operator

The next question comes from Marcelo Recchia with Credit Suisse.

Q - Marcelo Recchia

Hi, Jean. Hi, Lucas. Thank you for taking my questions. I have two questions. First, it's about pricing. Listening Brito at ABI conference call earlier, he mentioned about price increase for Brazil Beer in June. So my first question is, if you could elaborate a bit on your pricing pensions and the magnitude over the coming quarters in light of recent commodity cost pressure but also in light of the commodity cost outlook next year? That will be my first question, before -- I will wait before moving to the second one.

A - Jean Jereissati {BIO 20161989 <GO>}

So, did Brito mention that Marcelo? As we have been mentioning in previous quarter, over the long run, overall prices should grow in line with inflation. And they've gotten pretty much about shelf prices. And then on top of that, you have the discounts and then you have plus and minus in the channel. But there is this reference of shelves that are on the long-term growth with inflation.

And you know that we have been very flexible, nimble, and agile in a way to the actual market conditions, where we can go and move back and/or it can stick. So we are really taking every opportunity that we can. But it's really something that is frugal.

And so having said that, I would say that we cannot comment on pricing moving forward. I would just comment that this scenario that we are living in Brazil is a more inflationary scenario that we have to understand that's -- that got worse than we had in the past.

And in here, look, I'm really looking to the consumer. I'm not looking for my, specifically, for my costs. My costs, I already -- my COGS, cash COGS I gave the guidance already. I'm talking about really about the basket of the consumer in the inflation that we have over there and how we get better prepared for that, okay?

So I cannot comment much further than that, just that that we are in an inflationary scenario. The end of the year inflation was smaller than it was right now, and we have to find a way to adjust to it.

Q - Marcelo Recchia

Got it. Thank you. And my second question is about the SG&A. You mentioned on the outlook for this year and also in the call that you expect higher SG&A because of the bonus provision, right?

So just to understand if you can comment something about the outlook of this increase for this line this year, if you can -- what can we expect on that? Thank you.

A - Lucas Lira {BIO 21526003 <GO>}

Yes. Hi, Marcelo. This is Lucas. Thanks for the question. So for SG&A, in Q1, the biggest impact was indeed the provision for bonus, okay, based on our stronger than expected performance to start the year. Should we remain on-track or ahead of our expectations from a budget perspective, we will continue to accrue bonus provisions throughout the remainder of the year. So that it's reasonable to expect some additional, right, higher SG&A as a result, okay?

The second biggest impact that we are seeing so far this year is regarding distribution expenses, and that's mostly a function of volume growth, right? So as volumes grow, our variable logistics costs also tends to grow. The good news there is that there is a benefit in the topline, in the net positive -- it's a net positive at the end of the day, okay? So the higher SG&A in the distribution side is compensated, is offset by the improvement in net revenues.

And finally, the third bucket is the sales and marketing in Q1. There was lower sales and marketing versus last year, but this was mostly due to phasing, particularly in Brazil as a result of the restrictions that came back in March. So we obviously had to adjust our sales and marketing spend given that restrictions were in place.

So going forward, as we recover, as cities reopen and the on-trade recovers, we are going to adjust our sales and marketing spend accordingly, okay?

Q - Marcelo Recchia

Okay. Thank you so much for the answers.

Operator

The next question comes from Lucas Ferreira with JPMorgan.

Q - Marcelo Recchia

Hi, guys. Good afternoon. Congrats on the strong results. I have two questions. Sorry for that. Kind of two technical around your forward-looking statements.

The first one, you guys mentioned that you already kind of engaged in returning to the pre-pandemic EBITDA, assuming the 2019 number for instance. But I assume that your profitability to be back.

My question is, is there anything structural that you're seeing the industry in the -- especially the cost structure being the true that in the company that would impair you to come back to the pre-pandemic profitability, so 2019 guidance and EBITDA margin of roughly 42%?

So is there anything that you guys think that would be impairing you to return to this level? And if there for some reason considering the pricing policy, considering the reopening that you're seeing right now, you already envision that this will be see some point at some point in the foreseeable future. So that's my first question.

And the second question is around the same topic. Looking at the second half of the year, if you guys are reiterating the guidance for the COGS per hectoliter, I would assume that your kind of COGS curve is more skewed to the first-half of the year, considering the COGS per hectoliter was up at 25% this quarter. So in terms of, let's say, margin comps, are you seeing easier second half than first half? Thank you.

A - Jean Jereissati {BIO 20161989 <GO>}

Yes, so let me tackle this one and then Lucas can help me. So we are in the middle of pandemic, okay? This is -- I think this is what we should talk about. Since the beginning of last year when we saw this scenario of bar shutting down, bar closed, mobility restrictions at some extent, sometimes more, sometimes less. So all these things happening. We brought -- so we went to this vision of transform the company towards the future. Accelerate the things that we have been cooking during the pandemic, but really accelerate towards the future.

And I have been mentioning that -- so I want to really recover top line on fee. And I really want to recover volumes for the peak volumes that we had in 2014, that we lost 10 million hectoliters from that point. And we are being very consistent on that since looking for new occasions, the consumers.

I'm now having 100,000 more customers than I had before. We were very happy to develop this relax at-home occasion with our brands that's something really a future now. It's something that's more development on mature market.

So we were really with this mindset of let's get back in fee for the top line that we had at some point in time and really let's follow the question. Okay. So what I mentioned today, it is that, so we are confident on that. We are very proud of all the things that we achieved on the top line side. We see momentum. I think it's time for us to go back and say, we will look.

So if they recall -- for the recovery of the bottom line. So where -- when we would we make it. And what I mentioned is time for us to look at the bottom line that we had before the pandemic and match it.

So I really don't see nothing is structural that will not make is in this year and continue to coverage the topline growth with bottom line growth. But in terms of -- with this perspective of the pandemic in with this journey, we really decided to do first one first and then the other.

The next step will really talk about margin expansions. The good news is that really if you look at how we are for one big part that we are suffering with this margin contraction is really the currencies. And if you look at -- we are -- in 50% of my costs, they are in dollars with FX related.

And in the currency that I have in 2021, I mentioned that before, it's 5, 5.30. I'm hedged this year. This connects with that guidance that I gave of low 20s in cash COGS. So it's 5.29, to be more specific, the FX that I have to-date.

If you look at the market today, this is exactly the effects that we have today. So looks like this problem that I'm having today, it kind of stabilizes on this level of 5.29 that is already in my base. So I don't see on the effect side exactly nothing more as structural than that. We could decide to hedge everything on that. And then I would not have a problem with that. But not saying that I'm going to do.

And then we have the commodities that really pick it up in the short term. But we really have to understand how these things are going to evolve moving forward.

The other piece is, is that really, as I mentioned, we understand this inflationary scenario. We have been nimble and agile for us. We need to get all the opportunities that we have. And we need guarantee that momentum of our top line moving forward.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you, Jean. Probably just to insist on the second point that you see the second half on margin comp side linear considering the -- your new level of prices and considering the COGS guidance kind of more additive to the first half?

A - Lucas Lira {BIO 21526003 <GO>}

Yes. So, Lucas, as I mentioned in my opening remarks in terms of cash COGS per hectoliter for Brazil Beer, right, which is the guidance, we anticipate that the pressure will be greater, right, in Q2, okay, followed by kind of less pressure in the second half of the year, okay?

If you take a step back and look at the rest of the P&L, right, just if we go back to our performance during 2020, right? I think it's -- you can see that recovery driven by the top line was very strong in the second half of 2020. Which means that we have a tough comp in terms of top line going into the second half of the year, okay? And as I mentioned before, SG&A, we do expect it to be higher, primarily due to the higher provision for variable compensation.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Great. Thanks guys.

Operator

The next question comes from Isabella Simonato with Bank of America.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you very much Jean for the call and for the question. Can you elaborate the soft drinks outlook in Brazil? And also how do you expect cost pressure to come on that line of business this year. And if you could give us a little bit of more color about the quarters as you gave for beer equity, that would be very helpful.

And also on the international part on LAS, top line performance also being quite strong, but the measures in terms of restrictions and the quarter has been more -- have been more volatile right. How you're seeing at the beginning of Q2 and the evolution throughout the year? Thank you.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay, thank you for the question. Our net performance volume overall, this was an improvement in Q1 2021, so we have 0.8% growth. It's really so we are still with a lot of restrictions -- important occasion on the soft drinks is really this on the go. And so, mobility really connects with NAB industry and we are still limited on that but even though we were able to get to slightly positive volumes.

The brand is really -- Antarctica is coming back, getting performance better than it had before Sukita is doing good, energy drinks they are doing good too when we talk about the throughput volume in all of this partially offset by the occasions. The mix, there is an important theme for the profitability of soft drinks to this smaller packs. The channels they only go in the end was -- it's better than we expected, but it's still not there. And we believe as we will get better as the vaccination we move forward and the restrictions goes down, okay. So this is NAB.

When you talk about CAC, yes so -- LAS, when we talk about LAS. So LAS was a important quarter for us, it was a great performance. I believe so we had, we felt the restrictions more in Brazil on March. We are exceeding restrictions in Chile now, a little bit on Paraguay too.

When we go to Argentina so, talking overall about LAS so it was solid performance on Argentina, Chile and Paraguay mainly driven by corporates and premium segments, gaining market share in all of these countries, Argentina, Chile and Paraguay. Bolivia is a place where we are still on the pressure over there Uruguay to but Argentina, Chile and Paraguay with a very good performance.

Yes, we saw some restrictions moving forward over there, but as you see fluids like the pandemic it comes and it goes. So we are excited, because LAS we made -- we had some important changes over there. There is Chile is really being -- we have a structural change and new combination of partnership with Coke over there. That's really bringing us some different capability and possibilities.

So it's really something that we are very excited that we are able to gain that market share on the own trade segment that's something that we have been struggling in the best to do so volumes very strong, we are very excited. Argentina too we see the portfolio is really more -- is stronger. And this year we were able to be -- so the government and all this things we have been more flexible with more freedom for our show work on the revenue management side on discounts and on everything.

So structurally I believe that I'm really excited about LAS and pandemic. Yes, we saw some restrictions but it's something that it comes and goes through it.

Q - Isabella Simonato {BIO 16693071 <GO>}

Sure. Thank you.

Operator

The next question comes from John Swardis [ph] with Citibank.

Q - Analyst

Hi, good afternoon everybody. Thanks for taking the questions. I have two quick questions. The first one, we've had a very interesting discussion on the discount but it's interesting to see that you're using your online channels to enhance your intelligence, right. And I imagine that especially through the video, you've been gaining a lot of intelligence on your consumer?

So if there is anything Jean that you could share with us regarding consumer behavior trends? Possibly capacity to absorb further price increase and how they connect in the recent trends that you've been seeing, like the fact that brands that suffered in the past now stabilize. So anything that connects with this consumer behavior that you can share with us will be very, very interesting. So that's my first point.

And the second point, you talked a lot about -- you already talked about the commodity cost pressure, we are already almost half way through the year. Aluminum price have been going up. So can you talk about any initiatives ongoing apart from the revenue management that you've been doing to maybe mitigate this potential cost pressure going to next year, would be very interesting as well. Thanks.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. So let's talk about consumer behavior and the revenue management first. So consumer trends so we are seeing - just seeing we're building home consumption. And so it's really, so how the whole pandemic was really about how to win the in-home occasion and consumption so that was the most important being for us to -- and I think we reacted very fast. And we had a lot of learnings on that.

We know that the occasion in home is more about relaxation, is more about Mondays and Tuesday's and frequency, much better than before. That was very concentrated and now it was more we'll ensure like watching TV, live stream, relaxing. So this is like important that for us to win. You have to connect brands and now in route market and be profitable on this occasion. So we are working a lot on that.

We know that consumers are convenience -- its convenience is everything isn't it. So consumers are really looking for convenience, so they are buying locally. So they are buying in bundle box, close to data, in e-commerce, in Z' Delivery. So they are month and box and bars. They are transforming. We should become small take-away supermarket of some things. So there is this thing that we are - that's for example for you to know.

So we are betting on the RGB 300 ml bottles as the back that really can, that's leading the take-away occasion for all the bars and mom and pops that they are transforming. So if we cannot deliver, they have to have a take away strategy. And this strategy is really working very fine, because we design it. And so the back is a good back for us to do that. So the price point is designed for that. We are doing most of the place is six bottles for BRL12.

So it's a good price points for six unities that people can take. The customers are really adopting because they need this take-away, because this pandemic truly they open and close so they need something for people to take-away. So this is something that is really working from our side. So Ze Delivery I don't have to mention again. We have been talking a lot about it. So it's really about convenience is something back on that.

We know that there are two occasions that we are developing to. There is this the thing about Signature beer. We have another strategy that has (inaudible) where we have a, like a Signatures for the whole beer, that same price that's number of beers every month in your home. So this is, we have the best in Brazil. This is a exploding in Argentina. It's really something really guiding traction there.

So Ze Delivery is stronger here, (inaudible) is strong in Argentina. So we have to find the value proposition, the prices for that we are developing apps for pantry loading bodies. It is not about Ze Delivery it

S about BEES party that we want discounts for big. So we are really working on these missions and occasions that are enabled by technology for us really to be ahead of the time on that. So all these learnings and all the technology that we have, we are betting big time to be ahead of thinking.

And talking about offset costs of commodity headwinds yes (technical difficulty) are we still there? Yes so, as anticipated so this year was a year that we faced transactional effects headwinds, given the depreciation of real 50% of our COGS is dollar rise and now, we are seeing this commodity, there is something that that is -- its coming to the table.

But the things that we are doing are very consistent and it's really about this do not lose this momentum. The volume growth on continuity is really something that help us big time sweat the assets and have a better VLC logistic cost and have a better operational leverage when the volumes go up. So I'm really -- we are really excited about more towards the end of the year.

About the vaccination that is really something that we believe that RGB is 600 ml bottles and this socializing out of home occasion is really something that we will be back, we are preparing for that. So we pick some for you, we want to have around that and we are -- we have a much broader base of client so the prices are well set -- that we are prepared for when these moments happen. So this innovation strategy that we have that is really like driving mix and prices through new products so this Coke learners, the premium portfolio all these adjacencies.

So, lastly asked here about the Carnival. In Carnival I sell a lot of that product that we have that is BEES. That's so accretive for the company so that product is really designed for buys and it's kind of. So this occasion big parties outside events, is the depressive and we believe that if it doesn't come in Q4, it will come in Q1 of next year. So this innovations vision of occasions and missions are helping - will help us big time and we will not lower the guard so financial discipline is still there around costs, around expenses.

So, the CapEx is really about strategic investment. So we are really concentrating CapEx on the technology piece, on the footprint for us to really have the better service possible for customer and consumer. So this part here there is a lot of learning, because consumers are really paying for convenience so they pay and Z' Delivery, so our customers are beginning to pay for more days of delivery as a service so understanding this missions and these demands we are really being able to have some additional revenue on services okay. So that was pretty much it that I could mention on the commoditues mitigation.

Q - Analyst

Great Jean, thanks for the color.

A - Jean Jereissati {BIO 20161989 <GO>}

Okay. So I think that was the last one. We have a more -- that was the last one. I really want to thank first of all my team that is here working on NAB, working for Ambev. So team is working very hard to have this quarter for one year inside of pandemic to achieve these results, to have this great start in a very challenging environment. I also want to thank you all the analysts everyone who joined the call for the time and attention.

And to wrap up I'm really confident of the future for some reason. So we are in the path of very good commercial momentum. I think this has been confirmed quarter-by-quarter here with you all not only Brazil, but we are really picking up international operations like Argentina did very well. Chile, we are so excited about Chile packs. We are beginning to see that once the vaccination in U.S. is really moving forward so this summer is already with the hotels are already booked and everything.

So we are really seeing this momentum, not just in Brazil, but international operations. Although transformations big bet on technologies that we are doing takes time and the environment remains challenging, we can see contributions of our digital efforts. So BEES is like bringing a lot of possibilities for us. Ze Delivery is doing great. So when we have another effort on that side.

This portfolio is stronger. Our portfolio is much better than it was like two years ago, high-end brands are really gaining equity packs is there. Corona is doing very well. Colorado doing very well. Budweiser is a brand very important for us that's growing too. So we see brand power. The Core Plus segment it was something that we get it right. And we want to continue to bring new news on the innovation pipeline.

And one thing that we don't talk that much, but cash generation it is really something that is really structurally solid at Ambev, because we have been prepared for that. These channels somehow they help us on this core working capital. So my cash generation is really solid when you look last three years and this year. And we've remain committed to transform the company and invest ahead.

So that's it. Thank you very much. Thank you all. When do you think you need, just get in touch with Lucas and the team and we can continue the conversation.

Operator

Ambev's first quarter 2021 results conference call is concluded. You may disconnect your lines everyone. Have a nice day.