Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Antonio Barreto, Analyst
- Antonio Gonzalez, Analyst
- Luca Cipiccia, Analyst
- Robert Ottenstein, Analyst
- Thiago Callegari L. Duarte, Analyst

Presentation

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's Second Quarter 2019 Results Conference Call. Today with us we have Mr. Bernardo Paiva, CEO for Ambev; and Mr. Fernando Tennenbaum, CFO and Investor Relations Officer. As a reminder, a slide presentation is available for downloading on our website ri.ambev.com.br, as well as through the webcast link of this call. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Ambev's remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. (Operator Instructions)

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

I would also like to remind everyone as usual that the percentage changes that will be discussed during today's call are both organic and normalized in nature and unless otherwise stated percentages changes refer to comparisons with 2Q 2018 results. Normalized figures refer to performance measures before exceptional items, which are either income or expenses that do not occur regularly as part of Ambev's normal activities. As normalized figures are non-GAAP measures, the Company discloses the consolidated profit EPS, EBIT, and EBITDA on a fully reported basis in the earnings release.

Now, I will turn the conference over to Mr. Fernando Tennenbaum, CFO and Investor Relations Officer. Mr. Tennenbaum, you may begin your conference.

Fernando Tennenbaum {BIO 20615079 <GO>}

Thank you. Hello, everyone. Thank you for joining our 2019 second quarter earnings call. I'll guide you through the financial highlights for operations, including our below the line items and cash flow, as well as commercial initiatives on CAC, LAS and Canada. After that, Bernardo will give you more details about our operations in Brazil. Beginning with the main highlights of our consolidated results. In the second quarter, topline grew 7.2%, a combination of volume increasing 0.8% and net revenue per hectoliter up 6.3%. EBITDA reached BRL4.7 billion, an organic growth of 0.3% while EBITDA margin decreased 260 basis points to 38.6%. Normalized net profit for the quarter was up 16.1% delivering BRL2.7 billion. Similar to the last three quarters, we continue to report the results of our operations in Argentina applying hyper-inflation accounting.

Having said that, I will now move to our divisional results and start with Brazil. In the quarter, Brazil EBITDA reached BRL2.4 billion, a decline of 5.1% versus Q2 '18 while margins contracted 520 basis points to 38.1%. Beer Brazil had a very solid topline performance with volumes growing 2.9% while the industry was flattish according to Nielsen. Net revenue per hectoliter grew 3.7% and revenues 6.7% higher than Q2 '18. Net revenues per hectoliter ended up being in line with inflation, a combination of cycling of last year's price increase, higher premium mix, somewhat offset by regional mix as North and Northeast regions grew faster than the country average.

EBITDA for Brazil Beer was down by 8.5% in the quarter with margin contraction of 620 basis points to 37.5%. This contraction was explained by the cost pressures we already had anticipated in the full-year 2018 earnings release. Cash COGS per hectoliter grew by 24.7% impacted by aluminum, barley, and FX. Cash SG&A declined 0.2% even accounting for the increase in variable compensation accruals in relation to 2Q '18, which were more than offset by sales and marketing expenses phasing and efficiency gains in non-working money expenses.

Year-to-date topline in Beer Brazil increased by 11.2% and EBITDA was down 1.1% with margin contraction of 500 basis points to 39.9%. In NAB Brazil, topline was up by 14.2% in the second quarter. The result of 8.1% net revenue per hectoliter growth and 5.6% volume increase. Industry grew low single-digit according to Nielsen. EBITDA in the quarter grew 15.9% with margin expansion of 60 basis points to 41.8%. In terms of costs and expenses, cash COGS per hectoliter was up 0.1% with higher aluminum costs being offset by lower sugar prices. Cash SG&A was up 30.1% impacted by higher variable compensation accruals and distribution expenses related to volume growth.

Year-to-date topline in NAB Brazil increased by 19.6% and EBITDA was up 22.9% with margin expansion of 100 basis points to 37.5%. For Brazil consolidated, we reiterate our guidance of cash COGS per hectoliter growth of mid-teens in Brazil for this year, which should be more pressure in the first two quarters easing off towards the end of the year.

Moving now to Central America and the Caribbean. CAC continues to show good momentum with an 11.6% of net revenues growth, which is a combination of 5.7% increase in volumes and a healthy 5.6% net revenues per hectoliter growth. EBITDA in the quarter reached BRL811 million, posting a double-digit growth of 33.9% and a margin expanding 800 basis points to 48.1%. Cash COGS per hectoliter increased 8.8%, mostly affected by Panama where our strong volume evolution keeps our cost under pressure in order to assure there is no disruption in the market. Further, cash SG&A in the region was down by 20.1% driven by savings in non-working money and easy comparable in 2Q '18 due to the 2018 FIFA World Cup in Russia and phasing of sales and marketing expenses. The other operating income increase in the quarter is mainly explained by the $14 million insurance compensation we received for the damage caused by the 3Q '17 hurricane season.

Year-to-date topline in CAC increased by 12.1% and EBITDA was up 25.2% with a margin expansion of 460 basis points to 44.1%. We are pleased with our commercial strategy in CAC delivering helpful volume performance in virtually all countries in which we operate. In the core segment, we continue to enhance Presidente, our leading brand in the Dominican Republic through trade activations and a campaign that promoted consumers pride of the brand. We added more than 2,600 coolers in the quarter. One of the most important selling moments, Easter, was covered by the campaign Una fria no se le niega with an important price execution supported by activations in the entire country.

In Panama, our second largest market, core brands continued connecting with consumers through Atlas Golden Light campaigns, Unete al Pacto de Sol a Sol, and Balboa Ice experiential events such as concerts. Also, Balboa Ice introduced (inaudible) innovation to its RGB, driving differentiation among competitors. We also continue to roll-out our optimization strategy in the region developing Corona, Stella Artois, Modelo, and Budweiser through a customized execution both for this on-premise and off-premise channels. Corona was the highlight of the quarter engaging consumers to act on the protection of the oceans against plastic. Premium accounts for less than 5% of the beer industry volume in CAC representing a great opportunity for the future. I'd like to take this occasion to say that we continue to be very excited about our business development and a strong volume performance in CAC, reinforcing our positive outlook for the region moving forward.

Switching now to Latin America South. Volumes in the region declined 8.9% during Q2 '19 mostly driven by Argentina where volume decreased by mid-teens impacted by a challenging macro environment. Net revenues per hectoliter increased 21.2%, which led to a 10.6% topline growth. EBITDA loss for the quarter was up 1.9% with margin contraction of 290 basis points to 39.3%. Cash COGS per hectoliter in the quarter increased 21.9%, mostly driven by favorable FX hedges, while cash SG&A increased by 21.5%.

Tailwinds from the hedge position in Argentina, which led to gross margin expansion, were more than offset by increased distribution expenses due to the inflation and operation of the leverage. Year-to-date, topline in LAS increased by 13% and EBITDA was up 24.2%, with margin expansion of 400 basis points to 43.9%. Despite the macroeconomic volatility throughout the region, we remain focused on what we can control in our business and had positive developments.

In Argentina, we maintain the strategy of differentiating the core brands, Quilmes, our classic lager continues to enhance its national credentials with the launch of the Hecha con Carino campaign and the activation of a new soccer 360 strategy linked to Copa America. Brahma, our easy drinking lager, relaunched its affordability campaign Brahmas, offering consumers a more accessible option that minimizes out-of-pocket expenditure.

The core plus segment has shown sustainable growth over the past few quarters in Argentina. Andes Origen has been consistently out-performing the market following its launch last year. The repositioning of Budweiser, was supported by two digital campaign, one reinforcing its quality credentials and the other promoting the BUDX challenge, strengthening the brand's connection with music, a key passion point for the Budweiser consumer.

Our high-end strategy continues to show promising results both Stella Artois and Corona continue to embrace weather award campaigns with important with the cushions in Argentina. Stella Artois continued its StellaBlueChallenge and Corona launch it the use plastic campaign to raise awareness of the plastic in the ocean. Stella also embraces the gastronomy platform in Argentina with its proprietary event major competitor inviting important chefs of the country to cook at unique locations. Copa America was an important event for activation in LAS, with its important campaigns back in Chile and plus sailing Bolivia. Going forward, while cautious with Argentina in the short term, we have positive need and long-term perspective in the county and remain confident in our ability to deliver solid topline in EBIT in the whole region supported by strong portfolio.

Turning now to Canada. In the second quarter topline in Canada decline at 1.2%, a combination of 2.3% net revenue per hectoliter increase and a 3.4% volume decline, which was mostly driven by a declining beer industry. EBITDA reached BRL646 million, which is 8.8% lower than in the second quarter of 2018, with margin contraction of 260 basis points to 31.6%. In the quarter, cash COGS per hectoliter increased 6.2% negatively impacted by increased commodity prices especially aluminum, higher mix of important beers and lower dilution of fixed costs.

Cash SG&A increased at 1.8% rising by higher logistic expenses and impacted by variable compensation accruals. Year-to-date, top-line in Canada decreased by 1.9% and EBITDA was down 4.2% with margin contraction of 70 basis points to 29.2%. Despite the industry challenges, we had positive achievement with our portfolio during the quarter. Our focus core and core plus brands continued to deliver strong results. Michelob Ultra, supported by a campaign on Global Running Day, remains the fastest growing brand in Canada, while Bud Light, strengthened by Bud Light Orange launch, maintained its momentum.

In the premium segment, our high end portfolio is growing ahead of the industry, led by the double digits volume growth of our premium import brands. The country also joined Corona's better world efforts, enabling Canadians to take action with 50 cleanups coast to coast and promoting trade activations with plastic free solutions.

Now back to consolidated figures below EBITDA. In the second quarter, net financial results totaled an expense of BRL567 million, 48.5% lower than in Q2 2018. Main items in the financial expense in the quarter were; first, interest income of BRL156 million, driven by our cash balance; second, interest expense of BRL383 million, that also include interesting covenant connection with the Brazilian tax realization program, as well as non-cash accrual of approximately BRL60 million related to our put option associated to our investment in the Dominican Republic business; third, BRL204 million of losses on derivative instruments, which were up year-over-year explained by the increase of the FX hedges carry costs linked to our cost of goods sold and CapEx exposure in Argentina, partially offset by equity swap gains; fourth, losses on non-derivative instruments in the amount of BRL13 million; fifth, taxes on financial transactions on the amount of BRL19 million; sixth, BRL94 million of other financial expenses, partially explained by accruals on legal contingencies and pension plan expenses; seventh, BRL99 million of exceptional financial expenses explained by non-cash intercompany transactions; finally eight, BRL88 million of financial income related to non-cash income resulting from the adoption of Hyperinflation Accounting in Argentina

The normalized effective tax rate was 12.2% in the quarter, higher than in Q2 2018. Year-to-date, the normalized effective rate was 15.7% versus 13.6% in the same period of 2018. Cash generated from operating activities in Q2 2019 was of BRL3.1 billion, which is 3.1% lower than last year. Year-to-date, cash generated from operating activities is growing by 25%, reaching BRL5.2 billion. CapEx reached BRL896 million in the quarter and BRL1.4 billion year-to-date, increasing 12.8% versus first six months of 2019.

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

Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thank you, Fernando. Hello, everyone. As mentioned by Fernando, during the second quarter we saw success from many of our initiatives, including innovation and continued premiumization. Our Beer Brazil volumes included 2.9% in the second quarter with a flattish industry according to Nielsen. Year-to-date volume grew 7.2% in relation to the first half of last year, while the industry grew low single-digit.

I'm very excited about the consistent implementation of our strategic platforms, which allowed us to deliver a very healthy topline both in volumes and in net derivatives per hectoliter, despite an improving, but still challenging market. We remain confident that Brazil presents a great potential for the future. Half of the population above 18 years old, is not drinking beer, yet. The legal drinkage population growth on average 1.5% per year. The penetration of beer among women is lower than a more mature market and premiumization is still in early stage.

So now let's talk about our four strategic platform, which is Premiumize at Scale. Premiumization is a continuous trend, and is always important to reinforce that our strength in the segment is a great portfolio, combining global and domestic brands. This quarter we officially launched Beck's in Brazil. Beck's is a legit pure malt that follows the purity law since 1873. It has a unique bitter flavor and is the best-selling German lager in the world.

As we highlighted last quarter, brand building go through an investment experience, which allow consumers to leave the values of each brand in a deeper way. Such approach continues to deliver tangible results. This quarter, our global brands comprise of Budweiser, Stella Artois and Corona, grew together double-digits. Stella grew more than 50% and Corona once again more than doubled its volume. Budweiser extends for authenticity, exploring nightlife, rock-pop culture and great moments of consumer's life. Our proprietary event NBA House was again a huge success. Especially this year, around NBA Finals were broadcasts on free-to-air television. Budweiser has been sponsor NBA for the last past years.

Bud Basement was a hotspot for support in Brazil in Copa America. It was present in six main Brazilian Capitals with music and brand activation. More than 100,000 people attended and over 28.4 million were impacted by social media. Stella Artois continue to embrace the food platform participating core food events across the country, as well as leverage the final episode of Games of Throne. In the video that reaches almost 3 million viewers. Brazilian influences shared by Stella here with food, was sharing with Sean Bean, one of the TV show stars. Stella Artois volume was also supported by the continued expansion of new pack formats, such as the sharing size bottle and new cans.

Corona continues to embrace the Better World platform. The campaign Listen to the Ocean had a very positive and strong impact. The brand took advantage of this fantastic momentum to call the attention of the plastic dampen in the oceans. The video with (inaudible) reached almost 4 million views and land in June to the brands all-time high number of mentions in social media.

Colorado, our biggest premium Kraft brand and the leading brand on the Kraft segment in Brazil, launched Colorado Ribeirao Lager. It's a easy-to-drink kraft with distinctive taste following obsession of quality and differentiation. Ribeirao Lager will act as the entry point to the kraft segment. As the brand power for our premium portfolio continues to evolve and to increase, we are able to release new package allowing consumers to taste our products in different occasions, delivering strong sustainable volume growth. We are certain that the premium market is a portfolio gain and that we are in a very strong position to continue to gain share in the segment.

Now moving to differentiate the core. Brahma, our classic lager beer has been experiencing memorable momentum and growing strongly. The brand connects to consumers to relevant platforms such as (inaudible) the Brazilian pop music and soccer. Brahmas momentum was reinforced by the digital reality show The Next Number One. In this six episode YouTube show, in partnership with Villa Mix, Brahma search it for the next number one pop singer. The show was the biggest digital reality show ever, produce it in Brazil, with over 157 million view, with 98% of positive health. The launch of the first episode was the big of the years ever registered by Google Brazil and five episodes were trending topics on Twitter on their lunch. The quarter was also market by an amazing Copa America execution, Brahma sponsored 27 arena, set up traditional venues in five main Brazilian capitals, where consumers watch the games, while enjoying pre entertainment. More than 230,000 people attended such event and over 45 million were impacted by social media. Brahma also did a campaign with Marta one of the greatest Brazilian soccer players of all-time in award six times best FIFA woman's player of the year.

Finally, in June, the brand reached its all-time high number of organic mentions on social network surpassing 200,000. Skol's quarter was marked by the exciting results of the Skol family campaign, and by the national roll-out of Skol Puro Malte after its remarkable launch during Carnival. Skol family campaign reinforce the family concept in this call way of approaching consumers, young, modern and innovative. The campaign had more than 100,000 organic mentioned on social media with 91% positive health, which is the best result ever achieve it for Skol campaign. So far Skol Puro Malte continues to show very, very encouraging result. Also in the quarter, we launched the Skol Puro Malte print borrow with an easy to open bottle cap allowing the brand to joint special consumer (inaudible).

I'll now spend a few moments to talk about drive is Malte affordability. As we mentioned before, the better segment is characterized by their importance of brand equity. Moreover even though it's quite relevant in terms of volume, its share of the (inaudible) profitable is very low. During the second quarter, the share of the (inaudible) segment of the total industry remained stable versus the first quarter. But below second quarter 2018, we are confident that once we start to see disposable income improving, we are likely to see the various segment turning back to its with historical levels. One of our approach to the various segment is to build regional connections, does create brand equity and affordable price point, and given local raw materials, local marketing and only moves profit of package, we are also able to deliver very healthy margin. After the successful launch of Nossa and Magnifica, we rolled out in June, the Beer Legitima in the State of Ceara. The brand replicates the same successful strategy.

Now moving to operational excellence. Our mantra is wherever we call it Brazil, there has to be Ambev. Operational excellence has always been one of our biggest trends and key differentials. Given that point of sales connect our brands to consumers, customers experience is a strong focus. We have been measuring the net promoter score of -- for our customers in a consistent basis in order to understand and address the main pain points and improve the experience.

As the premium segment advanced, we are also able to implement hyper-segmentation for mature markets, mature cities, that we are rolling out to the country's main capital. That strategy trickles down to sales structure differentiated trademark execution, flexibility on deliver time, among others. Such initiatives translate into premium volume growth, brand building and market share gain.

Talking about technology. As we highlighted last quarter, technology has been a key enable for us to support our strategic growth platforms. To optimize Ambev's operations, one of the focus of the quarter was the integration of HBSIS, expanding and improving technology to other areas of Ambev with more agility and scale. On our relationship with customers, we are focused on free-up sales representatives time in order to focus on activities that add more value to the point of sales. As a consequence, sales reach are not conducted by sales reps at site, now account for 29% of the total volume of on-premise, compared to 18% in the second quarter '18. Part of this was driven by Parceiro Ambev our B2B tool and one of the largest e-commerce in the country with more than 100,000 clients.

Let's talk briefly about the project called Draftline. With Draftline our main ambition is to reach out directly to consumers. The levers for that goal are, first, improving consumer intimacy. And this basic consumer needs and establishing one-to-one relationship at scale. Second, building a proprietary healthier space. Third, being able to extract real-time consumer insight. And last, precise media. It's the digital transformation helping us to understand deeply our consumers and connect better with them.

Now moving to our NAB division, we are quite pleased to look our performance this quarter. Volume growth came from all different segments in our portfolio. An important highlight is the premium brands such as Lipton and Tonica, which grew double-digits bringing a healthy contribution to the portfolio mix. Talking about sustainability, this year, we are conducting the second edition of the program VOA, an internal consulting company with voluntary participation of our people created to help NGOs optimize their process, budget and also manage people and careers.

In this addition, 200 Ambev employees are working together at 75 selected NGOs impacting around 2 million people nationwide. AMA our water that converts all the profit obtained with the product, to initiatives of access affordable water in the Brazilian semi-arid has reached its 30 project, benefiting 30,000 people. Finally, so far 2019 has been a good year, our portfolio of brands is delivering a healthy topline growth helping to offset this cyclical pressures arising from FX and commodities. When you look beyond such cost headwind, we get even more excited about the strong fundamentals and growth potential of our business. We are only able to achieve such results in the first half given the amazing people who have always been the foundation of our company.

With our team, our culture and our consumer-centric business model, we are confident in a strong position to deliver long-term sustainable growth. We can now move to the Q&A. Thank you.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Luca Cipiccia with Goldman Sachs. Please go ahead.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi, good morning, Bernardo. Thanks for the question and congratulations on the results. I wanted to ask a couple of things. Maybe first, I think you make a comment in the release about stronger performance in the north and the northeast, which partly explained the mix and the revenue per hecto. Can you maybe expand on whether that is coming from stronger industry growth overall market share gains, some of the initiatives in the portfolio that you had over the last few months, including in (inaudible) and I would assume that's still a pretty low contribution. But anything that you can share there in terms of regional performance that would be helpful? And then secondly, which is related to this, maybe an update on the sort of value of the mainstream segment relative growth performance. I think earlier in Q1 you mentioned you saw that inflection already. I think it was interesting that earlier today Coca-Cola FEMSA made similar comments in saying that the lower income consumers are coming back to some of those segments in their categories, which in itself would be the sign of sort of the trading down maybe abating of inverting. So anything else that you can add on that discussion also would be very interesting to hear? Thank you.

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

Hi, Luca. Thanks for the question. Related to the volume so just start talking about the overall volume numbers that we had and was at 2.9% above last year while the industry was flattish. So, good news that we moved volume ahead of the industry. And again the performance that we had is a consequence of the investments -- consistent investments behind our strategic platforms. We have been doing all of those things. And it's important to point out that we have not seen disposal come yet resuming growth, which would likely to provide a meaningful positive impact. When you go to the premium segment, I mean we have been saying this, I mean, for many, many quarters, our strength is superior portfolio of brands, global brands, domestic brands. And we continue to gain share in this segment led by mainly for the South and Southeast because the industry of premium segment, it's bigger in the south of Brazil and Southeast of Brazil and given the disposable income that's higher here.

When you go to the core, I think that we have been doing a very good job in differentiating the families, the brands, Skol and Brahma and creating the fans. We started with Brahma three, four years ago and then we replicated this to Skol that I mean it's performing pretty well. Now we have Skol Puro, (inaudible) and Skol Puro Malte. And then I think that the growth in the core in the Northeast, it's really above the average in the country because our market share there was lower and I think because all those innovations that we're bringing in the core was really helping us there. Not only the core, but core plus so we are growing Skol Pura Malte a lot in Bohemia as well. S, the growth in the North and the Northeast, just to answer specifically your questions, it's basically innovation serving better the customers, the portfolio is a stronger and we are growing volumes ahead of the industry. And not only with the core brands, but with the -- our brands, local brands like Magnifica and Nossa that are really performing very, very well and let's always remember that those brands given that we are -- the agreement that we have with the local farmers. The market is local, digital and so on. We are talking about good margins. We are in a very good price point, but they have kind of core margins that help us to grow in the value segment with -- in a profitable way. So, which means that we are creating brand equity for those brands. People really like this regional link.

And specifically linked to the value segment, the peak was at the end of last year and then we saw in the first quarter a decline of 200 basis points in the size of the segment that remain stable from the second quarter to the first one, but below last year and below the peak of December of the last quarter last year, which means that really think the trade up from value to core started to happen. We think that the disposable income increasing or becoming better in a better shape in the future, the core segment will benefit the most. And the position that you have in the core segment was always strong and even stronger now with the famous of Brahma and the Skol performing pretty well.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Very clear. Thank you. Thank you, Bernardo. Thank you very much.

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

Thanks. Luca.

Operator

The next question comes from Antonio Barreto with Itau. Please go ahead.

Q - Antonio Barreto {BIO 17449798 <GO>}

Hi, guys, good afternoon. Thank you for your question. First of all, when we think about -- when we talk to our pricing checks and our channel checks, we see prices of a couple of brands in the premium segment like Stella Artois and Budweiser for example being gradually decreased. First of all, my first question, do you agree with that? And the second one, is it fair to say that you were pushing a little bit to the lower end of the pricing point in the premium segment? And as a commentary on that, there is one slide in your presentation for this quarter talking about expanding the premium with scale and I understand that that mostly means more brands in the premium segment, but could I interpret that as well as increasing the reach of the consumers in the premium segment with lower prices as well. Maybe even transitioning some of these brands to the mainstream plus segment. And if that is the case, wouldn't you run the risk of cannibalizing some brands in the core segment? Can you comment on that?

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

Okay. Antonio, thanks for the question. I think firstly to the price. It's very important to highlight that each brand has a different role and some price point and given that in the premium it's a portfolio gains, it's very, very important. So in the premium segment, for example, Budweiser is our largest premium global brand in Brazil and it plays a key role as a breach from people who are trading up towards the premium segment. So, this is the role of Budweiser.

Stella Artois, its prices both Budweiser and Corona both. And we just launched Beck's in Brazil, that will be priced between Stella and Corona. So basically our pricing strategy didn't change. Linked to the channel specifically, like you said. Beer sales in Brazil and mainly premium -- big, big volume in the off-trade are usually done via promo based on part of the retailer strategy to attract consumers to the stores. There wasn't any difference in pricing policy of the off-premise in relation to the past quarters. By the way, if you see our performance in the net revenue per hectoliter was above inflation. Even with our very strong growth in the north and northeast of the country that we have lower price given the price of the industry there is lower as you know.

So having said that, no change in the pricing. Linked to the innovation, so this was the insight that you had spreading all other markets year ago. So we had -- I mean, we had all the numbers we studied, other markets will leave it there. And we knew that with premium it would be a portfolio gain. You don't find in a mature market any brand that has more than 67% of market share. So we knew that Brazil would go and in the urban centers in the more healthy cities and states to the premium segment, the trade that would happen. So to build the portfolio was very, very point. And that's why we created kind of our innovation mindset internally with skills, process, people to assure this innovation machine would deliver a portfolio -- a broader portfolio in the future. So that's happening and it continue to happen. Because it's a portfolio gain and you have amazing brands, you have global brands, regional brands, I would have Kraft brands and so we think that the premium will continue to be a portfolio gain and we need to prepare ourselves or perhaps in doing or prepare, that's why we are gaining share in the premium segment for many, many quarters and very confident continue to do so. Link at the trade-up specific, what I see, I don't see a trade-up a big trade up from the core to the premium, what I see for the future, that it could be opportunity for us. If the disposable income in the country resumed growth that I mean, if it happens and then we always think that's no this could happen. The most important segment that we have the benefit of that will be the core segment. That was the biggest change in terms of the size of the segment in the last four, five years was exactly core going down and value going up.

Disposable income going up the trade up from core from value to core would happen like happened in many, many markets and our core portfolio is very, very strong. I don't see any issue in terms of a beer triggered from core to premium and if it happens is not bad because I myself feel not bad. So basically that I have to answer.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. Thank you, Bernardo. Very clear. Just wanted to ask you one question, if we think about the other revenues and this time around, we saw a little bit of a lower gain in the beer segment in Brazil, we have some volatility in the past on that line, but you mentioned that you lost some benefits in Santa Catarina, for example. So my question is how much of this loss can you attribute to Santa Catarina and how much is just normal volatility on the mix, as you mentioned as well. And if you have any other benefit in slide to expire in the upcoming years?

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Hi Antonio, this is Fernando here. Most of the volatility was due to the regional mix and to where you have been produce it, because different states have different incentives. The one that expired is Santa Catarina, but it was a smaller portion of that and there is no other I think at least in the short term, there is no other meaningful one expiring.

Q - Antonio Barreto {BIO 17449798 <GO>}

Thank you, Fernando.

Operator

Your next question comes from Thiago Duarte with BTG. Please go ahead.

Q - Thiago Callegari L. Duarte {BIO 16541921 <GO>}

Hi, hello everybody. I have a question circling back a little bit to the discussion about pricing in Brazil Beer, you guys made it pretty clear that the geographic mix somewhat offset the premiumization even though you still managed to grow roughly in line with inflation. So I just wanted to get a little bit more detail, two things that you didn't comment on, and I just wanted to make sure if there was an impact or not on the pricing side. The number one is regarding packaging or presentation. What we heard in our channel checks is that there was -- if you look on a year-over-year basis, the industry is much heavier on cans as opposed to returnable bottle. So I just want to see and to hear from you guys, whether you saw something like that affecting the mix, especially the presentation mix in the quarter?

And secondly, in terms of discounts, right, when we look at your financials, and of course, you don't break it down for the Brazil Beer division, but you do offer the parent company and the consolidated perspectives there. I mean we continue to see discounts as a percentage of gross revenues going down, and I remember I think Fernando, we discuss that a few quarters ago and your point was that you continue to see room for reducing discounts from the levels that we had a year or two years ago. So just wanted to see if you really had lower discounts this quarter versus the last few quarters and whether, of course, you see more room for reduction because we are really at a very lower -- much lower level compared to what we were some time ago? Thank you.

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Hi, Duarte. Thanks for the question. I think at first -- I mean you talk about the initially book and -- revenues and then how the mix of the regions can affect them. The thing that the fact that the portfolio, the North obviously, it's stronger now. It's more a core market and you sell market less than premium and I think that we have moved a lot in both segments the portfolio approach not only in the fact that have been talking a lot in terms of the regional brands Magnifica et cetera, but as well in terms of core.

So core, core plus -- we're gaining volume way ahead of the industry in those regions and ahead of the average of the full country and the portfolio of course is helping not only Brahma is doing well, but Skol family is doing well. Skol Pure Malt and Bohemia so, and because of the price of those markets also below the parts of the (inaudible) to have this regional mix impact, because really the growth there is really significant. That's good news because it's good news because we have been working hard in terms of the go-to market there. The portfolio projects will really be able to grow that was the always -- the region that our market share was not as we expected and below average of the full country. So opportunity there in your stacking this with the portfolio approach in the main segments there (inaudible) and the value in the smart way, like I said before. We need to the cans in RGB, we'll continue to push the RGB in the right way. So the 300 the one year so that's very, very important.

We continue to see opportunities growth on that because you know that in 60% of people, 28 plus in Brazil, they don't drink beer and 80% of this 60% is not is that because they have money constraints. And then the disposable income going up, I think be would be even more important, and to expand the availability to assess ability to the -- our core brands. But having said that, what we sort of first the premium segments growing and premium segments growing and we are gaining share in this segment and premium segment mostly one way.

So (inaudible) growing, but because of that. And the second thing, one year launch, we launched a new brand or we -- we innovate in something in a very strong way like Skol Puro Malte like the (inaudible). The first volume that comes because a big try on that comes from one way because mix up from people who try a new brand and new liquids they will not buy one liter bottle (inaudible) to do that. They will buy a can, they buy along there.

So those two effects, yes, push little bit the weight of the cans in our mix, but for good reasons, premium growing and innovation in the core is doing pretty well. So that explain a little bit the trends in the cans and based on your question. So now of your another (inaudible) on your question on discounts. At the end of the day, you always find ways to be more efficient be the through the 18 pack beer through -- how you price it because you know that there is some inefficiencies, especially in the off-trade and over time as process improves as you get more efficient to try to find ways to be more efficient on that line and that's why would be seeing the difference between gross and net revenues diminishing over time, of course, the (inaudible) of that has already been done. But there is always going to be a little bit better on that, but I wouldn't say there is a on a huge space to improve a lot.

And just to another. I mean, just to add on that in terms of the mix and the biggest, the biggest by far effect in our cost of goods sold. And this quarter was effect in aluminum that is typical. That's why the performance in topline so important because we know that's cyclical, including the last numbers that we saw for aluminum. I mean, good numbers and including the -- went down (inaudible). So those kind of 375 to 376. So if you continue and our plans to continue to perform well in topline and discuss the fact is cyclical, it's very good news for the future.

Q - Thiago Callegari L. Duarte {BIO 16541921 <GO>}

Yeah. Thank you very much. Just a little follow-up here. Just to make sure I understood the message especially on the first part. So you described, Bernardo the increase in the one way presentations at least the big part of that mostly as, let's say, innovation and introduction of several liquids and extensions that you guys introduced in the recent past. So you -- would you say that if you exclude that effect you could see more room for growth in returnables or a more favorable mix just for me to understand how you guys see this packaging and presentation mix evolving in the future? Just a follow-up here.

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

It's not, I mean, we don't keep a guidance on that because the markets can move, but just so if the ordinary growth because innovation and profitable innovation in core with new brands and because the planning -- the premium segment is growing with higher margins, innovation higher margins coming. We are gaining share in premium. It's not this -- it's not bad, it's good for the business because the day, I mean, we're expanding the industry and we are gaining share in each specific segment. That's saying and that's why that's our plan for the (inaudible) segment. So that's good news. So can grow in full premium, it's very good. Margins are better, expanded the industry and yeah, I'm gaining share in the segment that's growing. But having said that, I see, I have not given numbers, the opportunity of the RGB to help us and this trades up from value to core when disposable incomes start to resume growth in our country here in Brazil. This is happening, with the core brands the innovation that we have the Skol family, the Brahma family, I've seen this. Yes. One leader, if you have (inaudible) represents a great opportunity of trade up from value and to core and including from people that not even during today because of money restrictions. So it's both, I think both opportunities, RGB in core, trade-up in premium innovation, with better margin even sold in one way package. Clear now?

Q - Thiago Callegari L. Duarte {BIO 16541921 <GO>}

Yeah. Very clear. Thank you very much.

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

Thank you, Duarte.

Operator

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

Q - Antonio Gonzalez {BIO 16846207 <GO>}

Good morning, Bernardo and Fernando. Thank you for taking my question. Just two quick ones, the first one on Skol. Last quarter, you mentioned that the entire family was growing, right? And this quarter, you made some very positive comments on the Pure Malt line extension, but you didn't comment on the family overall. Can you comment on whether that growth for the family continued into 2Q? And I don't know if you can mention any trends as you do the roll-out of Pure Malt is cannibalization on Skol, Pilsen increasing, is it in line with your expectations? And also perhaps the up-trading from value to mainstream remain flattish, right quarter-on-quarter. So I don't know if that has any impact on the mother brand Skol? so that's number one.

And then number two, very quickly, you've been talking about these tech enabled solutions, right, over the last few quarters, per se to Ambev and so forth. And this is the kind seeing your ability to serve the point of sale, I presume this is also explaining part of the growth in the Northern and the Northeast, you can increase frequency of visits in remote places and so forth. So I wanted to ask at this stage, what is the bottleneck to accelerate these better service? Is it the macro environment itself you're waiting for the macro to recover even further to accelerate these investments? Or really it is just the pace of execution that you can sustain at the moment in order to increase the frequency of visits and the quality of service in these particularly in the north-northeast in the more difficult to access areas? Thank you.

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Yeah, Antonio, thanks, thanks for the question, I mean, the first question related to Skol, I'm very happy with the Skol family. You don't disclose the growth per brand. And we could say that Skol Puro Malte is a major success launch which is accretive and changed the Skol family volume trend, big time, that helped the full business a lot. Always to bear in mind that, the second quarter with Copa America and with the country music platform was having more on Brahma, but -- and we activate Skol not as we activated Brahma in the second quarter. So -- but it's clear that the trends for this Skol family is a big, big change and Skol Puro Malte is not even, I mean 100% of launch and because as I said before here in the Q&A, people I mean under launch of products like that's a huge surface such a trial of the product and then you start to pack and then go to other pack on to other channels, so we are still launching Skol few markets is healthy, the brand equity of the Skol mother brand in the full family. So very happy with the results of Skol overall I would have a major trend and shift in terms of volume of that brands and Skol Puro Malte is really is really doing amazing well, there's a first question.

The second question, we have been working in this digital transformation in the company for some years and it just bought (inaudible) help us to grow even faster. I think that there -- it's helping us in many, many fronts. Not in the I mean, to talk about the point of sale, but I discussed about the draft line. We can discuss about process internally how we can optimize the process using technology to assure that our SG&A will continue to be in good shape.

I think, specific to the point of sale, I think there's a huge opportunity for us because we have a right to win there, we have contracts of point of sales weekly for many, many years. We are increasing big time or a basic service for those customers. Our NPS it's growing, we created three years ago a prime service area internal here in Brazil and other countries as well to assure that the NPS will continue to evolve in big time. And with that mix much more easier and to implement a B2B too. So that's grown a lot and I think that the pace of growth. It's more linkage and that's growing fast, could go faster, could, but there is an adoption time of the two from the -- for the -- from the customers is not a, think of lack of focus of, even lack of investments.

So we invest in our focus on that is very, very important technology, it's embedded in our DNA. And the adoption will happen, it's very soon. The next last year 80% of the -- our sales in the on-trade was done in the same quarter and insights visits helping them via order ways of order taking. So -- which means that way 82% was in fact this number was 18, for the quarter, this quarter it's 29, it's a big evolution. And in terms of the contract strategy to the box to the point of sales.

Q - Antonio Gonzalez {BIO 16846207 <GO>}

That's very helpful. Thank you, Bernardo.

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

Thank you, Antonio.

Operator

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

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. A couple of questions. I think you were asked this, but I'm not sure I heard the answer. Net revenue per hectoliter up 3.7%. What -- did you give us a number of what that would have been on a constant geographic basis?

A - Fernando Tennenbaum {BIO 20615079 <GO>}

Hi, Robert. We don't disclose that, but you can bet it would be better than that on a constant geographic base.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Okay. And then in terms of pricing this year, will it be the normal timeframe or perhaps in August, like you've done in other years?

A - Fernando Tennenbaum {BIO 20615079 <GO>}

It's not going to be much different than we've done in past years. Some of the pricing is already in the market like with some of that we already started in July for some SKUs.

Q - Robert Ottenstein {BIO 1498660 <GO>}

So a little bit earlier.

A - Fernando Tennenbaum {BIO 20615079 <GO>}

It's more or less similar to last year. You don't increase how the (inaudible) is -- the same day. So for some SKUs you already started, but it's going to be, it's happening in the third quarter like it happened last year.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. And then my last question, you now have a very strong portfolio of global international brands bringing Beck's and CCU Bud, Stella, Beck's, Corona and you gave us a little bit of sense of kind of the pricing ladder. Would your expectations also be that the volume will be kind of the correlated such that the lower price ones would have the most volume, so that, -- Bud would be the largest volume, Corona the least? And tied to that, have you had any surprises in terms of the customer acceptance of these brands like a lot of these brands are new to the customers in Brazil. Any thoughts in terms of how they've been accepted and surprises along those lines?

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

I think, Robert, as we already said, the portfolio approach it will be the winning approach, means by there is what's happening in the last many, many quarters have been gaining share in the premium segment. And the period of that, that you have an entry brands in the specific segment like Budweiser that's amazing brands, it's very good (inaudible), it's is a bigger brand and you will be a portfolio from there and then -- not even talk about some brands here. It would have our local krafts that we just launched a lager like a little bit better beer, in terms of the liquid, but we launched it Colorado Ribeirao Lager, that's growing a lot. So really, we are not a stage of that specific brands -- brand in the US that's scale up in the prices way of last year, I mean, have been improving a lot in the way that we innovate. So we do more highlights, we understand is more series in regions. So let's see a re-launched a brands not specifically -- an important brand in the portfolio in the south of the country. And was an amazing result -- was an amazing result that we have scale up for the future. Not if 100% Copa America name of the brand, but I just say that when I talk about the expansion of our portfolio of premium, it's not only the expression. But the way that we do in the way (inaudible). And then I mean make success case there and then go -- I mean, new things to big things and bigger to bigger things. So, I mean we adjusted in the last years. The innovation process that help us. We have a healthy pipeline, not only the premium in the quarter as well. But specifically premium bringing brands with different price values that we are sure towards at the profitability of the overall portfolio is pretty good and to have one brand for specific occasion for specific price point. For each specific occasion, each specific price point.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Thank you.

Operator

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

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

So thanks for the attention of seeing that you continue to be very excited about the implementation of our strategic platforms, not only in Brazil, but in the other countries, I think that consistency is the name of the game to win in a market that demands a connection even more with people they drink our beer's everyday. We are really truly consumer-centric company and really very excited about the prospects of the portfolio of the brands of the way that we operate. Thanks a lot. Have a nice day.

Operator

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