Q3 2016 Earnings Call

Company Participants

- Bernardo Pinto Paiva, Chief Executive Officer
- Ricardo Rittes de Oliveira Silva, Chief Financial & Investor Relations Officer

Other Participants

- Alexander Robarts, Analyst
- Carlos Laboy, Analyst
- Gabriel Vaz de Lima, Analyst
- Isabella Simonato, Analyst
- Jeronimo De Guzman, Analyst
- Lauren Torres, Analyst
- Luca Cipiccia, Analyst
- Pedro Leduc, Analyst
- Robert Ottenstein, Analyst
- Thiago Duarte, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and thank you for waiting. We would like to welcome everyone to Ambev's Third Quarter 2016 Results Conference Call. Today with us, we have Mr. Bernardo Paiva, CEO for Ambev; and Mr. Ricardo Rittes, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After Ambev's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given.

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

I would also like to remind everyone that, as usual, the percentage changes that will be discussed during today's call are both organic and normalized in nature and, unless otherwise stated, percentage changes refer to comparisons with Q3, 2015 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. Ricardo Rittes, CFO and Investor Relations Officer. Mr. Rittes, you may begin your conference.

Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

Thanks, Kate. Hello everyone. Thank you for joining our 2016 third quarter earnings call. I will guide you through our operational highlights of Brazil, CAC, LAS, and Canada, including our below the line items and cash flow. After that, Bernardo will give you more details about our performance in Brazil and how we are positioning ourselves for the quarters to come.

Starting with our consolidated results, third quarter proved to be the toughest quarter of an already very challenging year. Despite solid growth in most of the countries we operate, our performance in Brazil was impacted by a temporary effect of our FX hedges and the weak consumer environment. Consolidated top line was up 2.3% in the quarter, with a volume decline of 3.4%, more than offset by a net revenue per hectoliter growth of 5.9%.

EBITDA was down 14% to BRL 4 billion with an EBITDA margin of 41.5%. Net income was up 3.6%. Year-to-date top line is up 2.7%, EBITDA down 4%, and net income down 6.7%. In Brazil, our EBITDA was down 31.3% in the quarter. We're nothing but disappointed with our short-term EBITDA performance, but it is very important to understand the drivers behind the numbers so I will start by discussing the two main reasons that explain the temporary decline of our EBITDA in Brazil.

The first one is related to cash COGS, which explains more than half of our EBITDA decline. As you know, we have a hedge policy to which we hedge all defects in commodity exposure that can be hedged. Timing will depend on the nature of the exposure, time to react and other factors, but typically, we hedge our transactional currency exposure one year in advance.

Given that, the material devaluation of Brazilian real in the second half of 2015 is fully impacting our COGS now. During that time, Brazil real suffered close to 60% year-over-year devaluation before peaking at BRL 4.18 to the U.S. dollar in September 2015. This is inflating our cost of sales denominated in U.S. dollars, which represent around 40% of our COGS in Brazil.

With COGS inflated due to BRL devaluation, the easy decision to protect our profitability in the short-term would have been to offset this through price. But given our hedges, we know this is a temporary headwind and will ease in the next quarters before becoming a deflationary driver. In summary, the high volatility of BRL experienced in the second semester of 2015, when it peaked at BRL 4.18 to the dollar, is temporarily impacting us now. But given the reversion of the currency to current levels of BRL 3.20, this will be a positive for the company in the second semester of 2017.

The second reason is connected to top line decline due to adverse macroeconomic scenario in Brazil. We have seen consumer confidence improving in recent months and inflation decelerating, which will be a strong positive for consumers, but reality in the short-term is that the real disposable income continue to decline pressured by higher unemployment. In this environment, our top line declined by 6.6% in the quarter, with the net revenue per hectoliter down 1.6%. This was driven primarily by our decision to implement our price adjustments in the fourth quarter of this year compared to the third quarter last year.

In addition, as part of our revenue management strategy, we are using our complete portfolio of packs and brands to achieve attractive and more competitive consumer price points. This initiative includes growing our mix of returnable glass bottles, especially in supermarkets, where this format now accounts for roughly 25% of our volume. These two temporary drivers, FX impact on cash COGS and weak micro impact on top-line, explain most of the EBITDA decline in the quarter.

Now, going to more detail of our operational results in Brazil, our beer volumes were down 4.1% facing a tough comparable in the third quarter of 2015. We estimate that the beer industry volumes declined by approximately 3% in the third quarter, given the challenging macroeconomic environment. Brazil beer top-line was down 5.3%.

While our average market share in the third quarter of 2016 was down year-over-year, we delivered sequential improvement versus the second quarter of 2016, going back to our historical market share range and reaching the best market share level in the year. Bernardo will expand on this topic and discuss how we are positioning ourselves for the future in the current scenario.

Now talking about Brazil CSD & NANC, CSD & NANC top line was down 13.8%. Volumes declined by 8.1% in line with the industry as we estimate as the adverse consumer environment is temporary driving consumers away from CSDs to tap water and low cost powder juices. Net revenue per hectoliter was down 6.2% due to negative mix, the impact of taxes and the fact that we also decided to implement our price initiatives in the fourth quarter, facing a tough comparable base due to the early timing of our price initiatives last year.

Brazil cash COGS was up 24%, while on a per hectoliter basis 30.6%. As I already discussed, the main driver for this performance was a temporary impact of our FX hedges. Brazil cash SG&A was up 5.8% due to, number one, phasing of sales and marketing expenses that were more concentrated in this quarter mainly due to the Olympics; and number two, higher distribution expenses which were partially offset by savings in administrative expenses. As a result, Brazil EBITDA was down 31.3% in the quarter, while year-to-date, it is down 13.2%.

Now moving to Central America and the Caribbean, in CAC, we delivered another solid quarter. Our performance in the region was mainly driven by double-digit top-line growth with a good balance between volume and price. EBITDA was up 9% to BRL 353 million with EBITDA margins of 37.6%. In Dominican Republic, we continue to invest behind our brands, connecting with our consumers and activating demands in key selling moments, such as Verano Presidente and Corona SunSets throughout the quarter. We're able to expand our presence in different consumption occasions, reaching the all-time high share in total alcoholic beverage base in September.

In Guatemala, we had another quarter of market share gains, driven by strong performance from Modelo brands, namely Corona. While we're still benefiting from our solid cost management discipline in the region, EBITDA performance was impacted by the timing of sales and marketing expenses in the quarter. Year-to-date, our EBITDA margin is up 80 basis points, driving an EBITDA growth of 19.4% in organic terms.

Going forward, we continue to be extremely excited with the top-line and EBITDA growth potential from our region – from current operations and other known organic opportunities, including Panama, that will become part of CAC pushing us a little bit closer to our dream of $1 billion of EBITDA in the region.

In Latin America South, our top line was up 22.1% and EBITDA 22.6% above that of last year. Our volumes, however, were down 1.4% as adverse macroeconomic conditions, specifically in Argentina, led to another quarter of volume decline in the country. Almost fully offsetting this, we reached record volumes in Bolivia, Paraguay and Chile. In Bolivia, this growth was driven by our RGB strategy and route to market improvements. In Paraguay, this growth was led by the successful rollout of the 340ml returnable glass bottles, and in Chile with the strong performance across all of our global brands in the country.

Net revenue per hectoliter increased by 23.8% in the region due to the successful implementation of our revenue management strategy, linked to inflation and premium mix. Despite costs and expenses still pressured by high inflation and unfavorable currency movements mainly in Argentina, we are able to offset these impacts through top line growth and procurement savings, delivering EBITDA margin expansion of 20 basis points to 42.8%. Year-to-date our EBITDA is up 16.2% in organic terms with an EBITDA margin expansion of 90 basis points. As we move forward, we remain confident in our ability to deliver a solid top line growth in glass while protecting our profitability over time, despite the economic volatility in Argentina.

Turning now to Canada, reported volumes grew 6.5% mainly driven by strong performance of our global brands, which grew high double-digits and the benefit from our strategic acquisitions, with Mike's beverage brands and Mill Street growing solid double digits in the quarter. Including the new brands we acquired, we have achieved the highest market share in 17 years. Organic volumes were down 1.3% with the industry negatively impact by unfavorable weather which was partially offset by solid performance of Bud Light, Stella Artois and Corona.

Net revenues increased by 0.1%, with net revenue per hectoliter growing 1.3% mainly driven by our revenue management initiatives, in line with inflation. EBITDA declined 7.4% on an organic basis, negatively impacted by currency devaluation and negative mix along with higher administrative expenses.

Year-to-date, our EBITDA is down 2.4% in local currency with an EBITDA margin compression of 130 basis points. In nominal terms, however, our EBITDA is growing 14.6%. Going forward, we remain excited with our complete portfolio, including our recent acquisitions in near Beer while also committed to balance net revenue per hectoliter and market share to deliver profitable growth.

Now moving below EBITDA, our net financial results totaled a net expense of BRL 723 million versus BRL 317 million last year. Many items in the financial expense were, first, interest income of BRL 139 million driven by our cash balance mainly Brazilian reais, U.S. dollars and Canadian dollars.

Second, an expense of BRL 408 million due to interest expense. Close to half of this is a non-cash accrual related to the put option associated with our investment in the Dominican Republic. As many of you remember, as part of the CND deal in 2012, a put option exercisable in 2019 was issued which may result in an acquisition by Ambev SA of the remaining shares of CND for a value that's based on an EBITDA multiple. These non-cash accrual expenses increase over time as we approach 2019 as EBITDA growth among other factors.

Third, BRL 287 million losses on derivative instruments, mainly driven by the carry cost of our FX hedges, primarily linked to our COGS exposures in Brazil and Argentina. Given the interest rate differential between Brazilian reais or Argentine pesos and U.S. dollars, we have financial costs associated to these hedges, which are called carry costs. Carry costs have increased significantly compared to recent years due to U.S. dollar appreciation and high interest rate differentials but are sequentially coming down, mainly due to the reversal of the Brazilian real, everything else equal. If BRL and or Argentine peso appreciates or interest rates in these countries go down, carry costs are expected to decline even further.

Non-derivative gains and losses have been another source of volatility in our net financial results, as most of the results including this line are related to FX translation, and currencies have fluctuated a lot in previous quarters. But with lower FX volatility this quarter, we had no material gain nor loss in this line.

Our effective tax rate was negative this quarter due to one-off tax adjustments. First, around BRL 400 million is explained by reversion of a withholding tax provision related to unremitted earnings from Argentina. In 2013, a new withholding tax over dividend remittance was created under the previous government in Argentina. From that time until now, we have been provisioning for this tax, as the earnings were generated, but not distributed yet. As of July 23, 2016, legislation in Argentina was enacted revoking this tax leading to a reversion of these provisions.

Second, close to BRL 800 million driven by a one-time impact from the recognition of deferred tax assets on carried losses related to international subsidiaries. As an example of these losses, in the first quarter of 2015, we highlighted a BRL 350 million one-time negative impact from intercompany loans. We mentioned at that time that this impact came as a result of taxable profits generated from intercompany loans in certain affiliates, which were not offset by equivalents deductible losses due to mainly the lack of sufficient taxable profits in the corresponding affiliates.

We also said that once profits were to be generated in the tax loss carrying affiliates, this negative impact was expected to be reverted. That's exactly what happened in the third quarter due to a review in our capital structure outside of Brazil. With that, net income was up 3.6% in the third quarter of 2016. Year-to-date, net income is down 6.7%.

From a cash flow perspective, cash flow from operating activities before changes in working capital was BRL 4.1 billion. We started to revert the negative cash impact from the working capital seen in the first and second quarters, generating almost BRL 1 billion from working capital in the third quarter. Cash generated from operations was BRL 5.1 billion, while CapEx reached at BRL 900 million. Year-to-date, we have generated BRL 9.1 billion in cash from operations.

On October 19 we announced approximately BRL 2.5 billion in dividends to be paid, as from November 25. Year-to-date, we have paid or announced BRL 6.6 billion in interest on capital and dividends. As our free cash flow generation continues to grow sequentially in the year of 2016, we have the opportunity to continue to return the excess cash to shareholders.

Thank you very much. I will now move to Bernardo before going to Q&A.

Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thank you, Ricardo. Hello, everyone. Third quarter was a very tough one and we'll be never satisfied with the sort of results. But when faced as another like the one we faced in

2016, one can decide to either go for pre-fixes that can save results in a single quarter or a year but jeopardize future growth or what we believe is the right way, take advantage of disruptions that crisis bring to better position itself in a structured way.

As owners, we are always focused on sustainable value creation, even if temporary volatility pressures our performance in the short-term. As discussed in detail by Rittes, FX had a significant impact to our EBITDA in the quarter and is a fix for that short-term results would have been to offset this for prices. But given our hedge, we know this is a temporary impact that will be reverted in the next quarters. That alone explain more than half of our EBITDA decline in Brazil in the quarter.

The other main headwind was the impact of the weak consumer environment to our top line performance. We've already been dealing with the volatile macroeconomic scenario for more than a year. And we start to see some early positive signs for our consumer confidence, inflation, but in the short term, consumers remain under significant pressure, with direct impact on our top line EBITDA performance in Brazil.

On one hand, the recession is bringing a lot of volatility to our results this year. On the other, it's also creating unique opportunity through strength for our business for the years to come, and we cannot lose sight of these opportunities. During this challenged time, we have been boosting key initiatives focused on the five commercial platforms. We've been successful in these initiatives and we are confident we will leave this crisis in a significantly stronger position than the one we were when we entered.

Starting with Elevate the Core, in an environment like this, it's more important than ever to be close to the people in general, who drinks our beers every day. Skol sponsorship to Rio 2016 Olympic Games became another mark in the history of the brand. The Skol delivered a great experience through a complete 360 approach, ranging from activations in the on and the off-trade in the [major percent] of Brazil to unique experience in Rio, directly reaching more than 4 million people during the event. And last month, we've launched the new visual brand identity for Skol to highlight the brand strength and reaffirm its leadership on the mainstream segment. Along with the Desce Redondo campaign, the iconic arrow and the yellow color are still there, but in a total new design evoking Skol's quality, energy and the attitude and in doing how we connect with our core target.

Another successful initiative to connect for our core target was brands like Brahma Extra. Launched one year ago with three variants, Lager, Red Lager, and Weiss, Brahma Extra has shown strong growth year-to-date, solidifying its presence in the core-plus segment in Brazil. Targeting food and savory needstate, Brahma Extra not only bring the food pairing experience to mainstream, but also enhance the equity of Brahma model brand.

So, let's move to Premium. Premium has been growing and gaining weight in our mix every year in the last five years, including 2016. Working with a complete book portfolio from international to domestic brands, Premium Red represents 10% of our volumes, but with preference of Premium Red at 30%, there is still a lot of room to grow. The most successful case is Budweiser. Leader of the Premium segment since 2015, Budweiser is growing by volume double-digits and gaining market share once again this year.

Near Beer also became a new reality in Brazil and within our mix of brands, representing 2% of our total beer volumes, driving incremental volumes and positive price mix. Launched in 2013, Brahma 0.0 boosted this growth, disrupting the non-alcoholic beer segment in Brazil with an innovative liquid and brand ideal. The opportunity for non-alcoholic and low alcoholic beer in Brazil is still big and we have a plan to tackle that.

Beats Sense, launched in the end of 2014, allowed to us to target volume occasions we were not present before with beer, became one of the most successful launch in Ambev's history with strong volume growth, very incremental and solid presence. With the additional Skol Beats Spirit at the end of 2015 and Skol Beats Secret last month, Beats family is growing by double-digit even in challenged 2016.

Moving to occasions, let's start with in-home. RGBs have always been a key component of our business in the on trade. However, as consumer increase – I mean, are increasingly look for more attractive price points in more affordable ways to enjoy our beers, RGBs have gained popularity on the off-trade as well. And it's become a reality with our Minis reached 25% of our volumes in supermarkets in the third quarter of 2016.

Boost, RGBs in the homes of the people is one of the most important opportunity we see in 2016 and years to come. It brings affordability with a higher profitability. Another big initiative to shape in home has been the expansion for our market programs not only to the big but also small store formats, improving shopper experience and elevating the beer category in the off-trade.

And in the out of home occasion, we are boosting our marketing initiatives in existing and new key selling moments. In the current environment, we've been able to enter long-term sponsorship contracts at attractive rates, opportunities which may not have been available in a stronger economy. For 2017, we have already confirmed our presence in two of the biggest street bars in the world. Antarctica will be the official beer of Rio Carnival for the seventh consecutive time and Skol will be, once again, sponsoring Salvador Carnival after the last three years sponsored by our competitors.

Finally, let me also make use of our portfolio effects to improve affordability in the on trade mainly for a one-liter returnable glass bottles, which is growing by mid-single digit this year.

In summary 2016 has been a very challenging year in Brazil, bringing a lot of volatility to our results. We are nothing but disappointed for our short-term results. That said, we continue to be confident about the growth opportunities in the country and optimistic about the future for our business in Brazil. We expect favorable demographics, the closing of regional disparities in the per capita incomes, and the consumer that will demand much more about premium products that will help drive long-term volume growth.

We also have a very consistent commercial strategy based on the five platforms and we are using the current environment as an opportunity to boost these initiatives and to better position Ambev to maximize the structural growth drivers.

With that, let's move to the Q&A.

Q&A

Operator

We will now begin the question-and-answer session. The first question comes from Isabella Simonato of Bank of America Merrill Lynch. Please go ahead.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good afternoon, Bernardo and Rittes. I have one question on Brazil. Considering the price increase they will probably do or have done already in Q4 for beer, and considering also the positive outlook for cost going forward, how fast do you think we can see beer margins recovering throughout 2017? And also if you could discuss a little bit how you see volume recovery for beer and soft drinks going forward, considering the consumption outlook in Brazil, that would be great. Thank you.

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

Okay. Thanks, Isabella. I think that in terms of – we'll start for the second question in terms of volumes. The long-term drivers in Brazil, I think given that, we continue to be bullish in Brazil. We know that's not a straight line up, but in every time, in five years or so have one of two years or the and then that's how market like Brazil works.

Having said that, I mean, I will think that for the long-term, we'll continue to be bullish in the volume growth because, I mean, as I said, the legal drink age, the young adults in Brazil, I mean, they're increasing 15% every year per capita. We know that you have some regions of much higher than the others and then this – we will evolve into happening in this as well. And people are much more open to the premium brands and then we are linking in the segment, in the premium brands and in all the global brands and the local brands that we have will help us to do that. So, we don't comment a lot in 2017 and the future, but I say it again, we expect – always expect Brazil to be back when you have a crisis like that every five years or so.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

And Isabella, just let me to add, consumer confidence is improving. The inflation is decelerating. We know that a consumer environment is still challenged with unemployment, but I think one lags the others. So we are, like Bernardo said, excited with the prospects of Brazil. We know it's not a straight line, but we're excited.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you.

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

Thanks, Isabella.

Operator

The next questions comes from Luca Cipiccia of Goldman Sachs. Please go ahead.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi, good afternoon. Thanks for taking my question. I wanted to understand a bit better if you can explain the decision on pricing in this sense. I think you both mentioned the fact that the FX was a major headwind and that it would have been easier to increase prices to upset that, but arguably you knew all along the type of pressure was going to emerge in this quarter, and seasonally typically you do the price increase in September.

So, when I look back to other revision and guidance that you made after the second quarter, was that the timing of the pricing already incorporated and, therefore, the incremental negative was the volume or the mix or rather when did you decide to change the strategy – the pricing timing, sorry? And related to this, maybe on the market share, given that you no longer disclose the absolute value, but what drove that incremental sequential improvement by segmental channel or region. I think you mentioned premium, you mentioned some of the returnable. But I don't know if you can qualify relative to the second quarter. Will you increase market share overall primarily from this segment rather than the other segment that will be great?

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

So, Luca, thanks for the question. I think we have not changed the way that we managed the revenue, manage beer, and the price strategy. Our strategy continues to be to increase price in line with inflation in the long term but then FX offset that.

In the short term, in order to balance volume market share, I mean, we always manage volume market share and price and we decide to implement the adjustments in the fourth quarter, I mean, instead of the third quarter last year. Another thing that you always see is the way the disposable income, I mean, how we can connect with that and assure that the price increase will be in the right moment to mitigate the impact in the industry.

So when you put all together, we thought that was better to delay the price increase for the fourth quarter. But again, we have not changed our strategy in terms of price that we have been saying to you for many, many years.

So, I think the second question was linked specifically to the market share, the third one. I think that market share have many, many sources, I mean, one is Nielsen, one is industry as well. But at the end of the day, I mean, we are very pleased that we are back to our historical range. We know that the initiatives that we are doing that are tackling affordability is helping us, I mean the growth of 300ml returnable bottles in the off-trade, I mean covering some price points that were not covered using pack price helped us. But all the initiatives that we are doing for the brands helped as well. So, we are pleased to see that even in the tough quarter, we are able to get our market share, our best market share of the year in this quarter.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Bernardo, very quickly, the delta in the guidance then is more explained by the decision on delayed pricing or is more explained by mix and volumes as compared to your earlier expectation.

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

Yeah, I think there's two things basically. I think, first, I think we always have to remind ourselves that expectation of inflation of this year is much lower than last year. Last year was around 11%. The inflation this year is 7%. So if you get to all the guidance that we have that's fees pricing inflation, only then it's a kind of difference now that you see in this price increase of this year compared to the last year. And you know that the market economics scenario is not an easy one. We expect this to recover over time. Brazil will get back, but in the short term, disposable income continues to be a big issue. So I think that those are the two things that, I mean, it was really the ones that, I mean, we have to rephrase this likely the guidance of top line.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Thank you.

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

Thank you.

Operator

The next question comes from Lauren Torres of UBS. Please go ahead.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes, hi everyone. My question actually was also related to the change in guidance, but I think with you answering that, I'm just curious to get your perspective on the general environments. We are hearing in Brazil consumer products companies talking about seeing some stabilization in trends, if anything, maybe directionally less trading down or things of that perspective. So, I appreciate that you don't give specific guidance for next year, but if you're a bit more conservative than the rest, because that's what I'm hearing, is this strategy more about this affordability angle, the returnable glass bottles? Do you feel you have to lean on that more or there's opportunities with an environment potentially getting a bit more stable that this could reverse a little bit and we could see the upside coming through?

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

Hi, Lauren, thank you for the question. So summarizing, we have a very challenging scenario in the short-term, unemployment close to 12%, one million jobs reduction here to-date, worse figures in the series, real disposable income down mid single-digits for another quarter. But as you said, and like we also, and I think everybody else is seeing, we see positive early signs, we see inflation decelerating, since December 2015, and expect to decelerate even further even at a speed higher than anticipated in the beginning of the year. Consumer confidence also improving from the bottle in the first quarter of 2016. Remember, it's still below 2008, 2009 but rebounding, so we do see the same early signs that you mentioned.

Q - Lauren Torres {BIO 7323680 <GO>}

And can you address the returnable glass bottle? I think give that 25% number that you are at now, is that optimal or how are you thinking about that product?

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

I think that we have some areas of Brazil and reasons that, it's more than that, it's very difficult to say what the number would be in the future. But, we strong believe that will be more than that because it's a way to offer great brands that people like, like Brahma, Skol, Antarctica in a nice pack, in affordable ways. So, we expect to continue to grow.

Q - Lauren Torres {BIO 7323680 <GO>}

Okay. Thank you.

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

Thank you.

Operator

The next question is from Thiago Duarte of BTG. Please go ahead.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. Good afternoon, Bernardo, Rittes, everyone. I would like to follow on the RGB question, actually, two questions regarding RGB. I mean, there's been a great evolution in terms of penetration. You mentioned it's already 25% of your volumes in supermarket. So the first one is basically, I mean, if you look at [Siqalbi] and if you look at the different packaging forms that the industry produces in Brazil, my understanding is that one-way presentations actually continue to gain share versus returnable presentations in Brazil, while you as their market leaders has been making a good progress in increasing returnable presentations in one of the most important channels. So just wondering, where is the RGB in the supermarket? So who is RGB in supermarket gaining share from in your perspective, in your mix? So that's the first question.

And the second question, you mentioned that RGB has a positive EBITDA contribution versus other packages in your mix. So that's perfect, but I was just wondering whether this contribution can actually improve further. I mean, the penetration has increased in a very fast pace in the last two years maybe. So I wonder whether this is being subsidized by you in order to increase or to accelerate that penetration with the retailers and, therefore, there is room for us to see better margins coming from RGB in the coming years. Thank you very much.

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

Thanks a lot, Thiago. I think there are two things. I mean, first one, have to always check the mix of channels and tax. So RGB is growing the mix in the on trade and in the off trade. But the fact that the off trade channel is growing more than the on trade and the size of the pie that one-way has in the off trade is much higher, this channel mix makes one-way still growing in Brazil.

But if you get, I mean, the RGB in the both channels, I think that you are in the right path and I think it's for the off trade I think that we always say that it's very relevant because probably the last year that we had RGBs industry in the main key account and so one was kind of 20 years ago. So, then we're bringing back RGB and I think that's the just the start because at the end of the day, you have to – how to not only do a good job with the channel, but start to reeducate people in their homes to get the bottles there, the crates there, and I think that's why I think that they continue to grow, that's why the margins, I mean, they are good. I mean, only with the way that they will grow will benefit us and I don't see RGBs in off trade that the price growing too much up. I think you have the price tree that you always respect.

It's important for people, they expect to have a lower price and with the price that we have nowadays, the margins are better than the one-way. So I think that we're in the right path to reeducate people to bring bottles to their home and crates to their homes. That's why I think that you be steady but you be up the way for RGB in the off trade channel, not only the big ones, but the in small ones as well, the small formats.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you. That's helpful.

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

Thank you, Thiago.

Operator

The next question comes from Robert Ottenstein of Evercore. Please go ahead.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. I was wondering if you could talk a little bit about what's going on in Brazil, in terms of share of alcohol, whether you think you're gaining share of alcohol? And how the consumer has responded to whether to spirits or I guess it's cocktails or are there other forms of alcohol relative to beer during this difficult time?

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

Robert, thanks for the question. I think that I don't have exactly a number here, but for sure we're gaining share of throat because Skol Beats Senses, I mean, it's a huge volume. It's incremental. And I think that for a consumer that's under pressure in terms of disposable income have alternative to drink a great liquid and a great brand like Skol with 7.9% of alcohol. It's sweet, it's co-add and that with our machine that put this product in the right point of sales in the right events, for sure, Skol Beats Senses, it's growing and it's gaining share of throat. So, I think that our core brands – beer brands are more under pressure because of the disposable income, but everything that's premium is growing, including Skol Beats Senses. We just launched Skol Beats Secret, that's like the pink one. And for sure, it'll be a big hit in the Carnival for next year.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Terrific. And then, just one follow-up. ABI has introduced pretty successfully Bud Light in Mexico, and obviously, there's a general overall goal of getting 20% of volume to be lower alcohol and no alcohol. And I know you've got initiatives with Brahma 0.0. Any thoughts about bringing Bud Light down to your regions? And how excited could that possibly be?

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

I think for the go, I mean, to for NA beers or low alcohol beers, our big bet continue to be Brahma 0.0, so it's doing is pretty, pretty well. And we continue to invest. I think they'll have room to grow with this product, some names in the liquid delivers big, big time. Linked to Bud Light, I mean, no comments, don't have any plan to launch Bud Light in Brazil at the movement.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Okay. Thank you very much.

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

Thanks, Robert.

Operator

The next question is from Jeronimo De Guzman of Morgan Stanley. Please go ahead.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Hi, good morning. I wanted to just follow up on pricing. Just ask the question a little bit different. I just wanted to understand how does delaying the pricing to the fourth quarter kind of change your positioning? So I know you mentioned that an easy fix would jeopardize growth, but what I'm still trying to understand is why not take the pricing already if you're going to do it anyway in the fourth quarter? So is there something about the fourth quarter that you think help the consumers better absorb the pricing or anything else that's different than the fourth quarter that drove this?

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

Thanks for the question. I think, basically what I said before, I mean, you always try to balance, I mean, the volume and the price and the share. And I think the biggest issue is the disposable income and that there's – in October, we know that the industry tend to be better because the warmer month. We don't like to talk about temperature here and forecast, but we have a tougher winter and mainly in the southwest. So we thought, I mean, how to balance volume and share and price. We take in account that disposable income and then we thought that would be better to go later in October, given even, I mean, the approach in the summer, that we would have less impact in the industry in a month like that, I mean. That's basically what is done and I think it's the right decision to do.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Thanks. And then just a follow-up here, I mean, how much latitude do you think you have on the pricing, just given that the competitors aren't necessarily seeing the pressure you're seeing? I mean, they saw the pressure a year ago and the fact that the value brands are taking share, I mean, they are concerned about them, just not following on your price increases?

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

So, Brazilian industry has always been tough one. What's happened now, this is not related to specific one when accompanying that putting price down or up, I mean, basically is linked to the crisis that we have. So, we don't see I think that everyone in this market is struggling in the sense because of the industry and because of the disposable income. So that's what we can comment.

Q - Jeronimo De Guzman {BIO 15888043 <GO>}

Okay. Thank you.

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

Okay. Thank you Jeronimo.

Operator

The next question comes from Alex Robarts of Citigroup. Please go ahead.

Q - Alexander Robarts {BIO 1499637 <GO>}

Hi, everybody. Thank you. And a confirmation and then a question. The confirmation is will we see Panama in the fourth quarter results? And the question, just going back to the cash COGS and, first of all, definitely appreciate the visibility you gave us showing the 17 percentage points in the Brazil EBITDA decline coming from the cash COGS. And so, what I'm interested to hear about is the pressure or the impact I mean from just the fact that you have more glass, you have more returnable glass and that was an incremental cost year-on-year. As you've pointed out, RGB is doubled. I guess at the last conference call, you said that it was up 100%.

Within this 17 percentage points, I mean, I appreciate that the hedge and the pressure from that, but is there also a piece related to the fact that you just have more glass cost? And if that's so, is that something that I assume would continue into the coming quarters, and the corollary to this cash COGS question is on the other graphic, you show us that implies you're buying 12 months forward. Is it safe to assume that in the fourth quarter, from the hedge effect, you will have less pressure on the margins? So, thanks very much.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

Hi, Alex. Thank you for your question. So, first of all ,using just outside information from the company given, how we are very systematic in the way we hedge our COGS, one could infer the type of quarter impacts that we have. So, one year ago roughly when we did the hedges, we knew a little bit how the hedges would be. What we didn't know back then is that these impacts would be temporary, which is great news. A hedge can only protect you to buy time. If this is temporary, I think it's even better than having like a market move above your hedges, so that's great news.

On the specific RGB the impact on hedges, it's very important to highlight that aluminum is international traded commodity. And as a result, is important portion of the cogs for our packaging, and as a result of that in denominated in U.S. dollars. On the other hand, glass been returnable, if you can use the returnable glass bottle for like 20, 30 times, the impact that you have both in your exposure and in the cogs is to reduce it. So our exposure to the dollar gets reduced by a shift towards returnable glass bottles and your COGS gets reduced.

So just highlighting that the two main temporary drivers that explain over the decline in quarter is first the hedge part like we discussed and the second like Bernardo and we discussed extensive as well is connected to the adverse macroeconomic scenario.

Related specifically to the fourth quarter, you asked a question specifically about Panama. We never comment the quarter – the ongoing quarter in the call, but I think the most important thing is that we are very excited with including Panama in our portfolio of countries. And we are very excited specifically within the region in which Panama is going to be inserted. Our CAC business is growing very much in the year and we expect it to continue to grow.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Thank you.

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

Thanks, Alex.

Operator

The next question comes from Pedro Leduc of JPMorgan. Please go ahead.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thank you. Thank you all for the question and the call. Quickly on pricing in Beer Brazil, again, you mentioned low pricing and inflation long run, if we look at the – just regular inflation data, it seems like beer inflation is already tracking general inflation. So, I'm curious to see your negative 1% slide if it also has to do with what you would in mix within your brands or within packaging, of course as you maybe have an impact on this as well. And so, then looking into the next quarter, if you're already raising prices, the base is really high from last year. It appears that you have to take at least 20% pricing to match it. So going back to my mix question, is there mix component in this pricing side that we are seeing? Thank you.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

Hi, Pedro. Thank you very much for your question. So that's exactly what we said in our press release that we don't know we expect to achieve our goal flattening revenue Brazil for the full year, given an environment, but it's specifically the high net revenue per hectoliter comparable of the previous year.

And we can take this offline as well, but you have to run the math on the next revenue per hectoliter, including the taxes that go above that for consumers. So, we can go that, and then you're going to see how it plays and how, for example, I think from last year, if I'm not mistaken was like around 20% delta from Q3 to the Q4, but you can look into our numbers. And we can check that. We're going to explain to you how this translated on the price to consumers, and how is the impact. We can go into detail with you.

Q - Pedro Leduc {BIO 16665775 <GO>}

Okay. That's appreciated. But some of the 3Q minus 1, is the mix effect here in the same product pricing versus 3Q last year, is that I'm imagining?

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

So, net revenue per hectoliter was down 1.6% primarily driven by our decision to implement our prices, in fourth quarter this year, when you compare to the third quarter last year. In addition, as part of our revenue management strategy, we are using the complete portfolio effects and brands to achieve attractive more competitive consumer price points.

So, this includes the RGB, but is not limited to that. So I think the important point there is to highlight that we are not changing your management strategy. Our strategy continues to be to increase our pricing in line with the inflation and pass on any tax increases over time.

Q - Pedro Leduc {BIO 16665775 <GO>}

Got it. Thank you.

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

Thank you.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

Sure.

Operator

The next question comes from Carlos Laboy of HSBC.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes, good afternoon, everyone. I was hoping you could expand a little bit on Robert's question earlier. How is the beer category doing in this environment? But my question is against informal alcohol. I think your response to Robert was geared more around formal alcohol.

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

Thanks, Carlos, for the question. I mean, we don't have information of the informal alcohol, but I would say that Skol Beats Senses and Spirit and Secrets, it's a great alternative because, I mean, it's a very, very quiet, I mean, liquid. Again, this is Skol, it's sweet, it's 7.9% of alcohol , delivers what people want in specific occasions. And the price point is attractive when you compare to the other kind of spirits.

The informal alcohol, I would say, cachaça, I think that everyone in Brazil trade up, I mean, in the last years, and then they start to taste different liquid including Beats Senses and I think that I continue to trust the ability of, I mean, this mix of drinks that we're launching in the market to gain share of through the lower price. And on the other hand, have to bear in mind that these RGB in the off trade brings affordability for, I mean, beer brands like Skol, Brahma, Antarctica and maybe some corporate brands as well in the future. So that again, great products, great liquids, great brands in affordable price that will put pressure in this lower outcome. So I don't think that lower price alcohols, they are a threat for us. On the opposite, I think they are an opportunity.

Q - Carlos Laboy {BIO 1506984 <GO>}

Thank you.

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

Thank you, Carlos.

Operator

The next question comes from Gabriel Lima of Bradesco. Please go ahead.

Q - Gabriel Vaz de Lima {BIO 16224058 <GO>}

Hi, thanks. Good morning and, I'm sorry, good afternoon. I just have one confirmation here. When you say, Bernardo, you're back to the historical range of market share that you're reached I think during the third quarter, I recall that the historical range is around 67%, 69% share. So I just wanted to confirm is that the numbers we are talking about? So that would be the first question.

The second is, you mentioned taxes. And we've seen lots of headlines here regarding state taxes that is a very tough situation at a state level here in Brazil. So and the state is moving the state taxes, they increased it last year or so and you actually changed your footprint based on that is likely. But how are you looking into taxes, mainly at the state level going to the next year? Thank you.

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

Thanks, Gabriel. So, first question that you asked was about share. So we measure, I mean, in many, many source, one source using is another one, have internal as well. So the main thing of a many, many source is not limit our initiatives that we put in the market based on the coverage of one source or another source. I mean we always do what's good for the business and every case counts, if it's rated in one source or not. Having said that, we have ranges in [seqalbi] and we have ranges on [nusi]. In both, we are within this range. If you ask for [nusi], yes, we are in the 67%, 69% range. But it's not the only one because having growing for volume outside of this rating of using the regular one, but you are in the range of both ratings.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

And Gabriel, regarding your question about state taxes. As you know in Brazil, each state has its own model, own tax rate and there's always discussions on going. That said, I can assure that similar to the discussion held at the federal government level in the recent years, the cold beverage industry holds a permanent and constructive dialog with each state government with the intent of showing that a lower tax burden on the industry enables our greater potential for volume growth and further investment.

As a result, loss for collections to continue to grow with no pressure inflation job creation on the investment. I mean, we say a lot that the model that we believe is a model of the positive cycle in which we're doing investments, investments generate jobs, jobs generate consumption, consumption generates increase in tax collection, and we have, of course, all that permeating stability in terms of rules, so that to increase tax collection throughout what we believe to be a sustainable way.

Q - Gabriel Vaz de Lima {BIO 16224058 <GO>}

Okay. Thank you very much.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

Thank you.

Operator

There are no additional questions at this time. This concludes our question and answer session. I would like to turn the conference back over to Mr. Bernardo Paiva for closing remarks.

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

So, thanks, Kate. Thanks, everyone, for being part of the call. Just the final message, we're continue to be bullish here in Brazil, that's the main topic of this call. We know that's not a straight line, but have a strong plan, I mean, I have been discussing there for you for the last one year and a half, and now at elevated call out initiatives, we are able to that, I mean, new of Skol is doing pretty, pretty well in the market and then you do even more for the other brands as well. So premium is growing, we are there. Near Beer, we are doing important things in terms of out of home, in home, route to market service level to box and, on top of that, again we know that Brazil is still facing this year a tough moment in terms of macro, but we're very confident that next year we will be better. All the indicators, the macro numbers that we have shows that and you be completely ready to capture just opportunity that the country, I mean, will offer to us again. So very bullish, continue to be bullish about Brazil and about our plans for the future.

Thanks a lot. See you next quarter.

A - Ricardo Rittes de Oliveira Silva {BIO 15184017 <GO>}

Thank you.

Operator

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