Y 2019 Earnings Call

Company Participants

- Fernando Mommensohn Tennenbaum, Chief Financial & IR Officer
- Jean Jereissati Neto, Chief Executive Officer

Other Participants

- Antonio Gonzalez, Analyst
- Isabella Simonato, Analyst
- Luca Cipiccia, Analyst
- Robert Ottenstein, Analyst
- Thiago Duarte, Analyst

Presentation

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's Fourth Quarter 2019 Results Conference Call. Today with us, we have Jean Jereissati Neto, 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 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 4Q 2019 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. Fernando Tennenbaum, CFO and Investor Relations Officer. Mr. Tennenbaum, you may begin your conference.

Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

Thank you. Hello everyone, thank you for joining our 2019 fourth quarter and full year earnings call. I will guide you through the financial highlights, including below the line items, and cash flow. After that, Jean Jereissati will give more details about our operations in Brazil, CAC, LAC and Canada.

Beginning with the main highlights, on a consolidated basis in the fourth quarter, topline grew 5.7%, a combination of volume increasing 3.4% and net revenue per hectoliter up 2.2%. In the full year, net revenue was up 7.9%, with volume growing 2.7% and net revenue per hectoliter growth of 5%.

EBITDA reached BRL6.9 billion in the quarter, an organic decline of 2.7% and EBITDA margin decreased 370 basis points to 43.7%. In the full year, EBITDA was up 1.5% with margin contraction of 260 basis points to 40.2%. Our bottom line performance was impacted mostly by a higher cost of sales resulting from significant commodity and transaction currency headwinds. Normalized net profit for the quarter was a 24.4%, delivering BRL4.6 billion. In the full year, normalized net profit was BRL12.5 billion, 8.5% higher than 2018.

Our cash flow from operating activities was BRL18.4 billion, in line with 2018. CapEx in 2019 was 42% higher than in 2018 with most of the increment driven towards innovation. Similar to last quarters, we continued to report the results of our operations in Argentina, applying hyperinflation accounting.

I will now move to our divisional results and start with Brazil. In the quarter, Brazil EBITDA reached BRL4 billion, a decline of 6.6% versus Q4 '18, while margins contracted 450 basis points to 45%. In the full year, Brazil EBITDA was BRL11.7 billion with a decline of 4.5% versus 2019, while margins contracted 500 basis points to 40.9%. In the full year, cash COGS per hectoliter increased 18.4%. We missed our guidance of mid-teens, mainly due to packaging mix.

In the quarter, Beer Brazil topline grew 1.2% with sales [ph] volume increase of 1.4%, while net revenue per hectoliter declined 0.2%. EBITDA for Beer Brazil was down 12.5% in the quarter, with margin contraction of 710 basis points to 44.9%. Cash COGS per hectoliter grew by 17.5% impacted by commodity and FX. In the full year, topline in Beer Brazil increased by 5.6%. Volumes were up 3.2%, while Nielsen reported industry growth was 2.4%. EBITDA was down 6.5% with margin contraction of 530 basis points to 41.6%. Such a margin contraction was mostly linked to FX and commodity cost pressures.

In NAB Brazil, topline was up by 13% in the fourth quarter. The result of 16% volume growth and a net revenue per hectoliter decline of 2.5%, driven by a different pricing calendar than in 2018 and affordability initiatives. EBITDA in the quarter included a 51.8% with margin expansion of 1,160 basis points to 45.3%. In the full year, topline in NAB Brazil was increased by 16.1%, volume grew 11.3% and EBITDA was up 9.5%, with margin contraction of 230 basis points to 37%.

Moving now to Central America and the Caribbean. We continue to be very excited about the Central American, Caribbean. In the fourth quarter, net revenue grew 9.8%, a combination of a 4.3% increase in volume, any 5.3% net revenue per hectoliter growth. EBITDA in the quarter reached BRL885 million, posting a double-digit growth of 19.1%, once again driven by a strong performance in the Dominican Republic and margin expansion of 350 basis points to 45.3%.

In the full-year, topline in CAC increased by 10% and EBITDA was up 22% to BRL3 billion with margin expansion of 440 basis points to 43.8%. The other operating income increase in the year is mainly explained by the $18.5 million insurance compensation we received for the damages caused by the Q3 '17 hurricane season in the region. Without such compensation, EBITDA growth would have been 19% in the year.

Switching now to Latin America South. Topline grew 13.8% in the quarter with a net revenue per hectoliter growth of 13.7%, while the volume was flattish, increasing 0.1%. In Argentina, we saw the second half of the year with better trends than the first half. Meanwhile, social unrest in Chile and especially in Bolivia both affected performance in 4Q '19. EBITDA in LAS for the quarter was up 2.2%, with margin contraction of 540 basis points to 46.9%. Cash COGS per hectoliter in the quarter increased 18.7%, mostly driven by FX and inflation. In the full-year, topline in LAS increased by 15.1% and EBITDA was up 12.3% with margin contraction of 110 basis points to 43.8%.

Turning now to Canada. In the fourth quarter. Topline in Canada declined 0.5%, a combination of a 1.0% net revenue per hectoliter increase, and a 1.5% volume decline, which was mostly driven by a soft beer industry. EBITDA reached BRL517 million, 16.4% lower than in the fourth quarter of 2018, with margin contraction of 560 basis points to 29.3%. Cash COGS per hectoliter increased 17.8%, negatively impacted by increased commodity prices, higher mix of imported beers and lower dilution of fixed costs. In the full-year, topline in Canada decreased by 1.9% and EBITDA was down 10.7%, with margin contraction of 290 basis points to 29%. As one of the many efforts to increase volume in our ready-to-drink category, we announced the acquisition of Goodridge & Williams Distillery, the producer of Nutrl, one of the fastest growing RTD brands.

Now back to consolidated figures below EBITDA. In the fourth quarter, net financial results totaled an expense of BRL1.6 billion, 6% lower than in 4Q 2018. The main items in the financial expense in the quarter were: first, interest income of BRL151 million, driven by our cash balance. Second, interest expense of BRL346 million, that also include interest incurred in connection of the Brazilian Tax Regularization Program, as well as a non-cash accrual of approximately BRL70 million related to the put option associated to our investment in the Dominican Republic business. Third, BRL576 million of losses on derivative instruments, which were up year-over-year, explained by the increase of FX hedges carry costs linked to our cost of goods sold and CapEx exposure in Argentina.

Fourth, losses on non-derivative instruments in the amount of BRL537 million, mainly explained by an adjustment in the fair value of the put option in the Dominican Republic and by a non-cash intercompany FX variation, mostly linked to the Argentinean peso depreciation. Fifth, taxes on financial transactions in the amount of BRL72 million. Sixth, BRL183 million of other financial expenses, partially explained by accruals on legal contingencies and pension plan expenses. Seventh, BRL93 million of exceptional financial expenses, mostly explained by a state amnesty payment. Finally, eighth, BRL92 million of financial income related to non-cash incomes resulting from the adoption of the Hyperinflation Accounting in Argentina.

In the full year, the effective tax rate was 5.8% versus 13.5% in 2018. Cash generated from operating activities in Q4 2019 was of BRL9.6 billion, which is 9.6% higher than last year. In the full year, cash generated from operating activities is a stable reaching BRL18.4 billion. CapEx reached BRL2 billion in the quarter and BRL5.1 billion in the full year, increasing 42% versus 2018.

Before, I pass on to Jean, I'd like to welcome Lucas Lira as incoming CFO as of April 29. I have been working closely with him for the last 15 years and I couldn't think of anyone better prepared than him for the challenges ahead. Thank you very much.

Jean will now share some of the initiatives and thoughts on Ambev's operations before going to Q&A.

Jean Jereissati Neto {BIO 20161989 <GO>}

Thank you Fernando. Hello everybody. Good morning, good afternoon. First of all, I would like to thank Bernardo Paiva for his almost 30 years of service to Ambev, and we wish him the best of luck and success going forward. Since this is my first call, I would like to focus on two things: quickly review of 2019; what worked, what didn't and share my perspective on 2020 and beyond.

Facing the brutal facts 2019, was not an easy year, FX and commodities headwinds, pretty much across the board significantly, impacted our profitability. We had a tough operating environment in important countries like Argentina's macro environment and Bolivia's social unrest. The second half of the year was not good particularly in Brazil Beer, due to competitive dynamics and we continued to see industry headwinds in Canada.

On the other hand, 2019 was also a year where we delivered some important results and continued to invest behind our future growth. In Brazil, Beer volumes were back to growth and our topline was more balanced. Our high-end portfolio delivered very solid performance, growing double-digit. Our innovation pipeline continues to connect with consumers and increase its relevance in our results.

And NAB had an overall excellent performance. Meanwhile CAC continued to deliver consistent, strong results, not only in Dominican Republic, but also in Guatemala, in Panama. In Canada, we continued to place important bets in our innovation pipeline and beyond beer portfolio. And last but not least, we pushed ahead on our transformation journey of becoming more consumer-centric, more customer-centric and digitally transforming our business.

If we take a closer look at Brazil beer, volumes grew 3.2% and net revenue per hectoliter increased 2.4%. Meanwhile, industry estimated by Nielsen to have grown 2.4%. Speaking of our brands, the Skol family was back to growth in the fourth quarter ending the year was stabilized, with the launch of Skol Puro Malte. Brahma brand power improved and the brand remains innovative such as the recent launch of Brahma Duplo Malte. Each of Budweiser, Stella and Corona grew double digit as was the case with some of our cheap [ph] domestic premium and craft brands, such as Original and Colorado. Though still early base, that (inaudible) packs in the Brazilian market has had a great moment. Our smart affordability brands such as Nossa, Magnifica and Legitima continues to connect with more and more regional consumers.

Turning to Brazil NAB, we had announced outstanding the year with 11.3% volume growth, 16.1% net revenue and 9.5% EBITDA growth. This result was driven mainly by initiatives in premiumization and smart affordability. Also our dedicated innovation team for NAB was responsible for the launch of Natu an all-natural soft drink made from guarana, different juices, fruits and (inaudible). And we also came out with the new visual brand identity for Guarana Antarctica.

CAC continued to deliver excellent results in 2019. Balanced topline growth with 5.3% volume and 4.4% net revenue per hectoliter growth, 22% EBITDA growth and 440 basis points of EBITDA margin expansion. These results were driven by the strong brand performance of Presidente in Dominican Republic, Atlas Golden Light in Panama, and Corona and Modelo Especial in Guatemala as well as package innovation.

In LAS, we had a very volatile year with a challenging macro economic and political backdrop throughout the region. Volume declined 3.5%, while net revenue grew 15.1% and EBITDA increased 12.3%, Argentina suffered during the first half. However, volume started to perform better in H2, although given the FX devaluation costs remained under pressure. Both Chile and Bolivia suffered social unrest in Q4, which impacted volumes.

On the other hand, we feel that our portfolio is healthy, and we are well positioned in all countries to benefit from a more stable operating environment. Lastly, Canada had a very tough year with volume decline, driven by a soft beer industry and commodity headwinds, leading to a 10.7% decline in EBITDA and a margin contraction of 290 basis points. We will continue to focus on further developing our portfolio with brands like Michelob Ultra, while in parallel we will invest in other categories such as CBD, (inaudible) and the ready-to-drink beverages, our next step being the recent acquisition of the Nutrl brand, an award winning spirits company. So all in all, strong first half, weak second half, some important accomplishments related to our plans for the future, that's pretty much 2019.

Now let's talk about the future. 2020 is a year where we have to do better and I believe we can do with. Particularly, resuming EBITDA growth in Brazil Beer, while transforming the Company. There will continue to be cost pressures due to FX headwinds albeit to a lesser extent given commodities tailwind and we will face tough comps in the beginning of the year, particularly in the first quarter given the peak of cost pressures, as well as and S&M phasing. That said, there is still plenty of opportunities going forward. It is up to us to leverage our capabilities and strengths (inaudible).

And to do that, we will focus on three things. First, Ambev as an ecosystem. We are part of a broader ecosystem that connect the farmers to consumers and we have should be protagonists and collaborative to accelerate the expansion of this ecosystem in a healthy and sustainable way. In the front line, this translates into customer satisfaction, becoming the best partner to our clients. For instance, in Brazil last year, according to our internal figures, we saw an improvement of 16 points in net promoter score, which measures customer satisfaction.

Also we have trimmed back and set the most ambitious goals in terms of plastic pollution of the industry. We want to get rid of 100% of our plastic pollution by 2025. In addition, we foster our people creativity and drive to bring positive impact with initiatives like Arma in Brazil, our mineral water (inaudible) obtained with the product to give clean water access to Brazilians in need.

Second innovation as a mindset. The success of our innovation pipeline is the best metric of our consumer centricity. We are working on innovating more and smarter, moving faster, adjusting with learnings, and when successful, rolling out, leveraging our scale. Just to illustrate how innovation is here to stay in 2019, 10% of our Brazil Beer revenues came from product that did not exist three years ago versus 5% in 2018.

We are organized to innovate in five dimensions in Brazil Beer, flavors profile and bitterness, health and wellness, regionality, convenience and future beverages. To support this, we reshaped the whole organization, creating the innovation hubs that work more autonomously and in agile modes. We have invested more CapEx to improve the flexibility of our breweries and ability to innovate, bringing the supply time to market to 2.5 months. We believe this will be a competitive advantage as we continue to evolve along with consumers.

Third business transformation enabled by technology. I know there is a lot of hype around transformations, but we are going deep here and I'm happy with the early stage results. Through the continued expansion of our B2B platform, we believe we can deliver better service level and create new commercial opportunities for our customers. We will be ready for our 24/7 order taking, should talk in social platform to drive traffic to customers and have regional marketing structures to have the right timing and create the right content.

In Brazil, we are connecting digitally with more than 220,000 point-of-sales today from approximately 50,000 in the beginning of 2019. The supply chain of the future is another initiative that combines our autonomous operator, sensors and the state of the art lines.

This will make sure we bring flexibility to address a more complex world without increasing costs. And on top of that, we are seeding new ventures to address in-home delivery, point of sale marketplace and fintech just to name a few.

So to wrap up, we see a lot of opportunities across our operations like trade up, trade up to Core Plus, trade up to premium, per capital growth and new beverage categories just to name a few opportunities. All of this, in a company with a strong team and a talented pipeline, a robust cash flow generation that allow us to have the right resources to invest behind our brands, to connect with consumers, our large and diverse portfolio and the clear strategy and priorities.

I'm not saying the road ahead will be free of bumps and turns, but we are no strangers to operating in volatile and uncertain markets. And there will always be competitive pressure. We love a good challenge. Over the last decade, we have delivered consistent results more often than not, and it is up to me and my team to live up to that legacy and we are looking forward to it.

So, thank you. Thank you everybody. I think we can now move to the Q&A.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Isabella Simonato with Bank of America. Please go ahead. Ms. Isabella, your line is open.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, everyone. Good morning, gentlemen. Thank you for the question. I would like to know based on your guidance for Q1, with almost 20% of EBITDA (Technical Difficulty) if you could address the main lines of the P&L what will contribute to this EBITDA decline, if you could give us a more color, contribution of each line to the decline. And moving forward in the year, within the wines, where is the main driver of recovery here so you can deliver an EBITDA growth in the full 2020? Thank you.

A - Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

Hi. Isabella, Fernando here. Let me put a little bit of context behind it. We are excited about 2020 and we expect to grow EBIT in 2020. But given -- when we look at our cost of goods sold kind of quarter-by-quarter, it's fair to say that the peak cost pressure is going to be in the first quarter. And also we decided to kind of invest a little bit ahead of the curve in terms of sales and marketing, because we are excited about the year.

So there is -- there are going to -- there is going to be more investment in the beginning of the year. When a couple of these two things, then it leads to a (inaudible) Q1, but we've seen the strategy that we have for the year. That's why we decided to be upfront about it. So we don't surprise the markets. But our view is actually -- our growth for the year, we just want to highlight there is going to be starting from a low base, because we are investing ahead of the curve and we have some cost pressures in the beginning, but we gain momentum as the year goes by.

Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Regarding the cost curve, when you look especially the FX, actually we would expect the stronger pressure to come in Q4 right, when you are appreciated that the most. I mean the hedging policy continued to be the same you had one year in advance or was anything different that would explain the cost structure to be stronger in Q1?

A - Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

So it's a combination. It's a combination of effects and commodities and it's always -- whenever you see one year, you always compared to the previous year. So we expect the biggest cost pressure to be Q1.

Q - Isabella Simonato {BIO 16693071 <GO>}

Okay, thank you.

A - Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

Just to reinforce, we mentioned that our FX cost pressures, we have commodity tailwinds. So the net-net is less cost pressure than we had in 2019.

Operator

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

Q - Antonio Gonzalez {BIO 16846207 <GO>}

Hi guys, good morning. Well, firstly Jean and Tennenbaum, congrats on your respective appointments recently and my best wishes for both of you. I got two questions, if I may. First, Brito referenced, this morning at the ABI call revisiting the category expansion framework, right. I mean some parameters of the model anyway, affordability, price elasticity and so on. And he stated examples Mexico, South Africa, Colombia. And I was wondering if you can elaborate on how this might apply to Brazil. Specifically I mean if I look at this quarter, it is obvious that you guys pursued more volume instead of margins, right and your pricing was a little bit more aggressive, et cetera. So I wanted to ask if you can frame this conversation for the very specific case of Brazil and did you expect that volume acceleration to materialize already in 2020 or you would only expect a more gradual progression towards higher volume growth rate into the future? So that's number one.

And then number two I wanted to ask on your guidance. And I guess the metrics that you feel comfortable sharing with the market. You guys are not sharing a specific range of COGS per hectoliter for this year, right as you in the last couple of years. And also ABI is providing this range for EBITDA growth rate to 5%. So I understand that providing a very granular number market-by-market for you guys might be competitively sensitive. But I wanted to ask if directionally you can put in perspective this guidance from ABI, would you expect a similar growth rate or is there any reason perhaps a profit warning that you're launching for 1Q in Brazil that should drive your overall growth below the range that ABI is indicated? Thank you.

A - Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

Antonio. Let me start by the second question, Fernando here and then as Jean would tackle the first one. I believe our guidance at the end of the day is kind of to grow EBITDA in Beer Brazil. That was the important guidance. I believe you were calling cost one here. I'll not say if I would call the same way because it's much more of part of our strategy to invest a little bit ahead of curve and some kind of hedging dynamics that you know that your cost of goods sold is a little bit harder on the Q1. When we have these two things, if we issued the guidance to grow EBIT and we start with a very low Q1, I believe that could cause some noise.

So we'd rather be upfront about it, it's part of our strategy. We want to invest ahead of the curve because we're excited for the year and so that's why we kind of give a very clear view on the -- for the Q1. To a similar extent, I believe a couple of years ago, we also give guidance on cost of goods sold on soft drinks between Q3 and Q4, because the numbers were kind of a very volatile and it was important to give the right direction to the market. So that was the context of the Q1 more than anything else. But, to answer your question, the guidance for Q1 doesn't impact anything at all our view for the full year. It's pretty much how we design our plans since the end of last year.

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

Antonio, Jean. Coming back to your first question, we are -- we had been very excited about the category expansion framework and we -- for the full year last year 2019, we have been tropicalizing this with this view about consumer-centric and looking for the Brazilian mindset, we made more than 30,000 interviews in Brazil with consumers, 15,000 samplings of products in the market new, from competitors. We created in our draft line internal agency, one area of social listening that we participate and we captured more than 16 million conversations about beer.

And based on that, we kind of tropicalized the category expansion, that came initially from SAB to Brazil, a little bit more complex, a little bit more deep. And based on that, we are really putting our efforts of resource allocation and our efforts of really differentiating the brands based on the occasions and then fulfill this framework with the pipe -- of our pipeline of innovation.

And based on that, it was that Skol Puro Malte was launched and it was a biggest contributor of our volumes in 2019. With that framework, we brought Bohemia, that it was a brand that was very low profile to the Core Plus segment in the classic lagers, and it's really on fire. And with that two, we implemented the smart affordability play with the regional brands and Magnifica is doing amazing, Legitima and Nossa doing good too.

So we are very excited about the way we are picturing the market today and how the market we will be in this future. Category expansion is really driving us, but in a deeper way, because we tropicalized it and we saw our volumes back to growth in '19 based on that learnings and based on the first initiative that we have and we believe that it will continue moving forward based on that strategy. Our volume will continue to gain momentum. Of course, Brazil was very volatile. For example, the Q1 that we have in 2019 was a very strong Q1 in terms of volumes and we believe that in the -- bump is in the road. We want to see volumes really going up consistently.

Q - Antonio Gonzalez {BIO 16846207 <GO>}

All right, thank you so much and congratulations again.

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

Thank you.

Operator

The next question is from Luca Cipiccia with Goldman Sachs. Please go ahead.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi, good afternoon Jean and Fernando. I guess congratulations to both of you for the new roles. And I was going to ask two questions. The first would be on to Jean, on pricing strategy and timing going forward. I was wondering, clearly over the last couple of years, it's been a friction between supporting volume growth, pricing, timing, competitive pressure, promotional activity and so on and so forth. And so my question is more, should we think about the future with Ambev possibly being a bit more flexible, with the way the prices, our pass-through into the market that we used to have a little bit of a calendar fix in the third quarter? And I'm curious to hear your views on whether that's still going to be the case, or you may be more opportunistic or anything may change on that front? So, that would be the first question.

And then secondly, I think you make reference to a number of investments in technology, digital opportunities that I guess there's a lot of -- that is going on in that space, that I was curious if you could maybe nearly down to -- if you were to mentioned one particular initiative or one particular capability, what do you see things that could have the bigger impact for the performance? But also what do you see that Ambev actually could have a big competitive advantage in doing some of this -- implement some of these initiatives, whether it's through scale, whether through proprietary capabilities or whatever else, I'm just curious to maybe narrow it down a little from a priority or impact standpoint? Thank you.

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

Okay, thank you very much. Luca for the question. Look over the long run, price really should grow in line with inflation, eventually disposable income. And what we have learned over the last few years, talking about the higher level strategy is that depending on the economic environment sometimes it's preferable to adopt a more inclusive pricing strategy in order to bring more consumers to the category. What we see in Brazil is that everybody is very optimistic. We see a little bit confidence going up, but Brazilian consumers still income is still not recovering with strength and so we have to be very cautious about that looking at this number.

On top of that, when we lay out on the execution, on this decision of the calendar, and the pricings, we always take in consideration besides the macro scenario, the elasticities, the channels, there is an important thing here in Brazil, the channels and the mix trends. The category expansion opportunities, where we are bringing a lot of innovation that we have the mindset of being accretive, so it's part of our plan and the competitive dynamics.

When we see from 2015 to 2018, with the economic crisis, our volumes declined 10 million hectoliters. In 2000 -- and we have a very rigid and very disciplined pricing strategy, independent if we were with a positive macro scenario or will for in crisis, and we suffered some million hectoliters because of that. In 2019, we saw consumer sentiment improving, even though disposable was not rebounding, but we were making progress to recover 2.3 million hectoliters of volumes, with the conduct that we had last year. Even though, the calendar, it is something that kind of, it was kind of frustrating a little bit last year, because it was a very volatile, you see the Q3 a little bit going through the Q4, it was something that we have to work in order to do it better.

So having said that, long-term should be in line with inflation. Our volumes are really based on our category expansion framework that we want to -- we are deep and we want to bring. But we have to be smart in the dynamics of Brazil and the sentiment of the consumer in everything. Regarding technology -- so regarding technology. So we are very excited about what we are doing with technology. We are so -- we are doing a lot of things that are in adjacencies, okay, but what I'm really -- I am excited about it is the transformation of our contact strategy. So, we have a window of opportunity, I check it with other FMCGs, it looks like we are ahead of the FMCGs that we have in the market, not even mention the beverage companies but the FMCGs in general. We already have 220,000 clients that connect with us through the digital platforms.

Our sales reps are really transforming their activities in a more negotiable -- more talking about liquids, talking about innovations, and we won around our B2B platform, really protect the own [ph] trades, reduce the costs of own trade and increase our service satisfaction, because we want to put, not just beer, but all the categories that is (inaudible) needs to buy all the categories around not just about beverages, with the marketplace, we made a deep study on pain points of the own trade in one important cost and pain point, it is the financial costs of machines, credit cards, and we are together with this strategy, putting place, I think that, reduce big time the cost of the own trade.

So this context strategy, this upgraded B2B to a broader marketplace with assortment that can connect with social platforms, where we can bring consumers to the customers that we want. It's something that is really have in my time, I'm really excited about it. So this context strategy of the future going much beyond the transactional activities in bringing traffic, reducing pain points and costs. I really think we will create an edge for us in the market.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Thank you. Thank you, very clear. Just real quick, this 220,000 that you mentioned, that would be a share of total or out of a total or could you put that in context maybe or and whether maybe...

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

25% of our clients had some type of connection through digital.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Thank you. Thank you very much.

Operator

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

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. Just, first one I want to echo the congratulations to everybody in terms of their terrific accomplishments, Bernardo and the big moves that have been recently announced. In terms of the quarter, I just want to push a little harder on a couple of things. The revenue per hectoliter for beer being down, if you could talk a little bit about kind of piece that apart and particularly what impact the smart affordability initiatives had on that, maybe give us a sense of how much of your mix is smart affordability and the impact on the volume, so that would be the first question.

And the second question a little bit follow-up on the technology side, and some of the new initiatives that you talked about at your sell-side or investor event in Brazil last year is where things stand on the direct-to-consumer initiatives? What sort of progress you've had since then? Perhaps what percentage of the country is now, where the logistics work, which is now covered by direct-to-consumer and where do you see that going? Thank you.

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

Thank you. Thank you, Robert. Thank you very much for your question. First of all, talking about net revenue per hectoliter. What happened in Q4 as we anticipated in Q3, it was much more about the competitive dynamics and the stickiness of the price increase than the smart affordability play, okay. So this smart affordability play for you to know is 10% of my volumes. We are happy with that. It is a smart, because we know where to do, how to do, what really happened in Q4, it was a little bit of the dynamics of the Q3 inside a part of the Q4 and we anticipated this in the last quarter.

Having said that, if you look at the level of the net revenue per hectoliter that I had in the Q4, it was -- it is still with all of that, not in terms of percentage of growth, but in the level, it is a healthy level for us to start the next year, to start 2020, okay. So this is what I can tell you about net revenue per hectoliter. The second thing is about the direct-to-consumer, our vision it is that this year, we should get to 4% of our total net revenue, with a direct transaction with consumers. The thing I'm more excited about -- the second thing I'm more excited about in terms of technology, the first one I mentioned, it's the context strategy of the future.

The second one, it is part of our innovation hub that I mentioned. We are innovating in five dimensions: flavors, products with differentiation, inside the pure malt, health and wellness and then I put there convenience. And in the convenience piece, there is a demand from consumers. We are working a lot on packaging, lighter, bigger, smaller, more convenient packages, but we have a venture that's called Ze, Ze Delivery is a venture guarantees beer at supermarket prices in 30 minutes at home. So this is a direct transaction with consumers, a great value proposition and in it's just on fire. So this is the main initiative that we have for DTC. We are doing 2 million orders in 2019 and this is expanding very fast because we are expanding the series, and it's a big opportunity for us. So in terms of DTC, Ze Delivery is the most important -- is part of our innovation hub is a venture and is really on fire.

Q - Robert Ottenstein {BIO 1498660 <GO>}

And what, and what part of the -- or what percentage of the Brazilian population is today reachable within 30 minutes and where do you think that will be at the end of the year.

A - Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

Robert, I believe, -- for you to understand how is Ze Delivery works, Ze Delivery will connect consumers to our own -- our traditional point of connections or point of sales. So it's fair to say that pretty much most of the Brazilian population is receiving 30 minutes from a given point of sale.

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

But the app, is this still with the footprint. The app in the advertisement and everything is its still in around 40 cities of Brazil and we are expanding very fast. So the capability to go all over Brazil in the next three years.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Very impressive. Thank you.

Operator

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

Q - Thiago Duarte {BIO 16541921 <GO>}

Hello everybody. Thanks for the opportunity. I have two question, first of all is actually related to dividend payments and the timing of those dividends last year. I mean, last year you didn't pay any interim dividends and you ended up paying a larger amount of interest on capital by the end of the year, which provided a bigger tax break in the fourth quarter. So my question would be, whether we should expect the same dividend or capital distribution policy in 2020, and beyond, or whether this was a one-time event for any reason in 2019? That would be the first question.

And in the second, going back -- circling back into the discussion about the revenue management initiatives and as you guys mentioned the frustration regarding the timing of the price increases last year and how that affected Q3 and into Q4. I think it was Jean who mentioned in the last question about having an adequate entry revenue per hectoliter in 2020. So, if you could just elaborate that a little bit more, I mean, my question is whether you would say that the revenue management initiatives that were implemented in Q4, should exist only in Q4 or we should expect a little bit more of that into the beginning of 2020 particularly with regards to how historically revenue per hectoliter has decreased in Q1 relative to the Q4? So just wanted to understand what's the cruise speed there in terms of revenue per hectoliter would be helpful. Thank you so much.

A - Fernando Mommensohn Tennenbaum {BIO 20615079 <GO>}

Hi Thiago, Fernando here. So, first on your question on dividend payments. I believe, we even have the same question on a couple of calls last year, and I think after the fact now, it's easier to understand that the reasons why we postponed the dividend towards the end of the year. For this year, probably the base case should be something similar, but these things are dynamic. Sometimes depends on FX movements (inaudible) components on your accounts and you may have a different decision, but more likely than not we should be following a similar pattern.

On the revenue front, I don't think you're kind of assessment of normally -- you start on a higher base, then you get into summer, which is normally a moment that we got a lot of volume, a lot of events sometimes you activate a little bit more. So your net revenues per hectoliter slips down a little bit. I don't think there is any difference, but what I -- what Jean was referring to is that when you look at the absolute levels that we start the year, when you see where the market is, I believe it's a healthy level for us to start the year and implement our price and volume start strategy going into 2020.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay. Okay, thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Jean Jereissati Neto for any closing remarks.

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

So guys, thank you very much. My first call with you, it was a little bit of one sided that I'm responding questions. I really want to be closer, have time in my agenda to be closer to you and get more feedback and make this conversation richer for me in this process of the journey that I'm assuming now.

So thank you very much for all the questions and let's keep in touch.

Operator

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