Q4 2014 Earnings Call

Company Participants

- Bernardo Pinto Paiva
- Nelson José Jamel

Other Participants

- Alexander Robarts
- Andrea F. Teixeira
- Antonio González
- Fernando F. Ferreira
- Gabriel Vaz de Lima
- Jose J. Yordan
- Luca Cipiccia
- Robert E. Ottenstein
- Thiago Duarte

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's Fourth Quarter and Full Year 2014 Results Conference Call. Today with us we have Mr. Bernardo Paiva, CEO for Ambev; and Mr. Nelson Jamel, 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 section. 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 belief 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 Q4 2013 or full year 2013 results. Normalized figures refer to performance measures before exceptional items, which are either income or expenses and 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. Nelson Jamel, CFO and Investor Relations Officer. Mr. Jamel, you may begin your conference.

Nelson José Jamel {BIO 16334129 <GO>}

Thank you, Gary. Hello everyone and thank you for joining our 2014 fourth quarter earnings conference call. As you know, we now have Bernardo Paiva here, our new CEO, for his first earnings announcement. But before turning to him, I will guide you through our operational and financial performance highlights.

So let's begin with foreign consolidated results. Our top line accelerated in the fourth quarter and grew 11.5%, leading to a strong 10.9% net revenue growth in the full year. Our EBITDA was up 7.6% in the quarter and 7.5% in the full year. Our EBITDA margin was 48%, down 160 basis points mostly driven by one-time gains reported in 2013.

Looking at our divisional performance and starting with Brazil. You remember that in our last call, we shared a review that we're not satisfied with the performance in the third quarter, but one, we do not see the quarter's result as indicative of future like performance; and two, we were sticking to our plan as we're confident it was the right one to accelerate our results in 2014 and to prepare ourselves for 2015 onwards.

Indeed we saw our top line was accelerating to 10.4% in the quarter and 10.6% in the full year, reaching the upper end of our regional guidance of high single to low double digits growth.

Brazil Beer delivered strong 11.5% net revenue growth in the quarter, driven by a solid 9.8% net revenue per hectoliter growth due to our revenue management strategy, the benefit of premium mix increase and increased weight of direct distribution; and a 1.5% volume growth driven by market share gains and industry expansion after a compression in the third quarter. In the full year, Brazil Beer top line was up 11.2%, with a good balance between volume and net revenue per hectoliter growth at 4.7% and 6.2%, respectively.

Brazil CSD & NANC delivered a 4.9% net revenue growth in the quarter and 7.7% in 2014. Our volumes were down 1.7% in Q4, driven by a (04:36) industry and a market share decline. While the full year, we delivered a 1.4% volume growth supported by our all-time high market share of 18.8% in 2014.

Our Brazil COGS per hectoliter was up 11% in the quarter, with a significant impact from depreciation that was up 31%, driven by our recent investments in Brazil. While our cash cost per hectoliter was up 8.6% due to unfavorable currency hedges and packaging mix, partially offset by our commodities hedges and procurement savings initiatives.

While packaging mix continue to impact our COGS, this was the lowest impact we had in the year when compared to the first three quarters. On the other hand, we had a higher impact from our currency hedges, while our commodities hedges do not help us much as in the first nine months. In the full year, our COGS per hectoliter grew 9.1% in line with our guidance. When excluding the package mix impact mainly concentrated during the second and third quarters, it actually grew mid single-digits.

Brazil SG&A was up 16.5% in the quarter driven by higher year-over-year sales and marketing expense, although 15% lower on a sequential basis. Higher distribution costs mainly driven by an increased weight of direct distribution, high depreciation up 45% for the quarter, partially offset by lower administrative expenses.

In the full year and in line with our guidance, sales and marketing direct distribution expense were up double-digits and admin expense grew mid single-digits below Brazil inflation. Our SG&A was up 13.7% and our cash SG&A, 12.9%.

After a 5% decline in the third quarter, our EBITDA reaccelerated to 5.4% growth in the fourth. We had a hard comparable base this quarter as we call the R$300 million one-time gain last year related to a recovery of restricted funds. Otherwise, our EBITDA would have grown a strong 12.8% with an EBITDA margin expansion of 130 basis points. In the full year, our EBITDA was up 5.3% in Brazil with an EBITDA margin of 52.2% or 260 basis points decline mostly explained by the one-time gains recorded in 2013.

Moving to HILA-Ex, our operations in Central America and the Caribbean, we continue to deliver strong performance in the last quarter of the year, following a trend of double-digit EBITDA growth in the first nine months of the year. The fourth quarter was no exception, and we managed to increase our top line by 17.5% and our EBITDA by 26.8% with almost 200 bps of EBITDA margin expansion.

We grow our top line across all currencies where we operate in the region. With a strong combination from volumes, as it continue to expand our market share in the total alcohol beverage industry in the Dominican Republic and to increase our beer market share in Guatemala. Our blend for the region remains on track as we finished another year with a strong operation and financial performance. Top line was up 14.5% and our EBITDA grew 22.1% in consolidated margin expansion.

In the Latin America South, our volumes declined 2.9%, mostly driven by the softer consumer environment arising from Argentina coupled with a poor weather. Despite that, we manage to increase our net revenues a bit in the region by 18.7% and 14.6%, respectively.

In the full year, we're able to maintain our volumes fairly stable with a strong performance in Chile and Bolivia, mainly offset by a challenging scenario in Argentina.

Innovation continues to play an important role in capturing volume opportunity in different consumer occasions. During 2014, we had many different additions to our portfolio. We have innovations as Quilmes Night, H2Oh! Limoneto, H2Oh! Naranchelo, special editions during the 2014 FIFA World Cup. And more recently, we introduced in the market our MixxTail Mojito, a ready-to-drink liquid totally new in order to capture other opportunities that we find in the alcoholic beverage industry.

It's not new that we have been continuously facing high inflationary pressures as you've seen throughout the year, which has diversely backed our labor-related costs and expenses in the region.

In the full year, our COGS per hectoliter increased 18.7% while our cash SG&A grew 18.6%. Regardless of the tough macro scenario, we maintained a strong focus in pursuing a solid top line growth, strengthening our brands in the region and also protecting our profitability. In the end, we manage to grow our EBITDA 17.5% in 2014 with stable margin in the full year.

Turning now to Canada, the beer industry in the country returned to the positive territory during the quarter, mostly driven by warmer temperatures in the last months of the year. Our reported volumes were up 4.6% in Q4, mainly due to the addition of Corona and Modelo brands to our portfolio in Canada. We increased our market share in the full year, expanding our leadership position as the best selling brewer in Canada. Our focus brands continue to lead the way, with Bud Light growing market share in Canada for the 19th consecutive year, and Budweiser also growing market share, expanding its position as the number one brand in Canada.

Corona and Stella Artois also both grew market share in the full year 2014, expanding our leadership position in both segment. Along the year, we clearly enhanced our EBITDA performance quarter-over-quarter as we implemented our revenue management initiatives. We're committed to drive premium brands and leverage our strong cost-efficient capability to improve our COGS and SG&A. Our EBITDA grew 3.1% in the fourth quarter, while EBITDA margin expanded 80 basis points.

Now, let me walk you through the main items between the normalized EBIT of around R$6.1 billion and normalized profits over R$4.7 billion for the quarter. Our net financial results were a negative R$587.5 in the quarter. Our performance was impacted by high expenses related to derivative instruments while we continue to be backed by the non-cash attrition expense related to the port option in the Cervecería Nacional Dominicana. Besides we also had the one-time non-cash expense related to the fair value adjustments of these options.

Our effective tax rate for the quarter ended up being 14.9%, resulting the full year effective tax rate of 14% compared to 17.9% on last year as we benefited from a high interest on capital payout in 2014.

In 2014, our normalized net profits came at R$12.5 billion, 8.9% versus 2013 driven by a stronger EBIT, better financial results and a lower effective tax rate. During the year, we had R$4.5 billion total CapEx, of which R$3.1 billion invested in Brazil. This figure came above our original estimate of below R$2.8 billion as we decided to accelerate expenditures on direct distribution to anticipate the Ponta Grossa plant investments and some innovation as those commercial CapEx such as coolers to take advantage to the – of the returns expected on these investments even earlier.

We generated roughly R$18.8 billion of cash from operations in 2014, a 7.5% increase over 2013 mainly as a result of stronger operational performance and better working capital management.

During 2014, we returned close to R$12 billion through dividends and interest on capital to shareholders, our biggest annual cash payout. Still in December 2014, we announced two additional interest on capital benefits totaling R$3.5 billion that were fully paid during January 2015. We have also just announced a buyback program totaling R$850 million that expect to be fully executed in 2015. Finally, we finished the year with a net cash position of R$7.7 billion, down from R$8.9 billion at the end of 2013 and not yet accounting for the distribution announced in December 2014.

Going forward, we'll continue to pursue the opportunity – the appropriate balance of reinvesting in the growth of the business be it organic, through investments mainly in Brazil, or through targeted M&A while maintaining appropriate level of liquidity and returning the excess cash to shareholders.

I will now turn to Bernardo as he'll give more color on our strategy and execution in Brazil and our prospectus for 2015. Bernardo, welcome and over to you.

Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thanks, Jamel. Hello everyone. During this first opportunity to talk to you, I would like to spend a little bit more time introducing myself and share with you what to expect not only for 2015, but to the years to come.

First of all, it's great to back after almost eight years away from here in Brazil. I'd like to thank my partner and friend, João, for the great job done in the last years. I'm sure he's listening to our call. So, João, I wish you all the best in your new challenge. I'm sure you'll deliver big.

It's a huge responsibility to lead Ambev for what we've achieved here and also for what to expect to achieve. We always dream it big and right now, guys, is not different. I've been in Ambev for 24 years in sales, marketing, supply, finance. But in the last eight years, I've been outside Brazil running APAC, LAS and the Chief Sales Officer of InBev, having the opportunity to see firsthand the different trends along very different countries and realities.

Brazil has definitely changed a lot during this time, but the structural growth drivers remain the same, especially when I compare it for the reality I've seen. First, demographics in Brazil are still very positive. Legal drinking age in Brazil has grown in the last 10 years. When we track the next five years, it will grow 1.5%.

Second, Brazil, it's a country of disparities. We know that in places like North and Northeast, for instance, that concentrate almost 40% of the Brazilian people with less than 20% of the Brazilian GDP and is a beer per capital (15:15) well below fiscal years. This structural growth opportunity was eclipsed by other factors in the last years, especially by the real tax increase since 2011, driving the inflation to consumers to double digit levels and significantly impacting volumes. It was great to see volumes recover in 2014.

Even when adjusted by the one-time benefit of 2014 FIFA World Cup and to have a new tax model approved by the government this January, a simpler, more predictable system and one that will allow tax revenues to grow with no material impact to beer inflation in mere volumes in the years to come. In other words, good for the government and good for the industries.

With that, we'll be able to focus even more in the growth opportunities we see in Brazil. And that's why I believe we can make a huge difference going forward. Given this structure driver I just mentioned, there is a strong volume there ahead of us potentially. But we do see significant growth opportunities on top of that. In the last couple of years, we have started to use consumer these insights to enhance the strategy that we have, targeting the total share of alcohol beverage rather than just focus on the beer occasions only.

We have always talked about share of growth and the opportunities beyond beer market share. But now, we have actually quantified and developed a bold plan to go after those opportunities and they are big. We've seen this process we have in it several growth product forms based on the consumer needs states and consumption occasions. A truly consumer-centric approach evaluating behaviors, taste and presence.

Based on these, we now have a clear view of, one, that you have to keep winning on today's beer difficult occasions and you'll do it. Two, that what – two, what to do start winning on occasions that you are not relevant or were not even present. This framework will guide us to enhance our commercial strategy to capture volume opportunities not even happened today.

These are long-term plan on margin, but the good news is that we have already started. We just have to take a look in 2014. We're talking a lot about building momentum last year and towards. Great to see not only the 4.7% volume growth, but the evolution of our execution in different brands.

During the 2014 FIFA World Cup, had the opportunity to deliver a truly 360 activation. We had outstanding visibility on TV and other media. While engagement for our brands through social media increased 132% with Twitter and Instagram more than tripling during the event. And at the same time, people were celebrating with their loved brands in stadiums, (18:19), in bar with friends, in home with family. These are great experiences that they will bring forth their whole life.

Along with the strong Brahma activation during the World Cup of the soccer and Brahma is the brand that supports soccer here, Budweiser was great. It was a game changer for this brand. The brand gained 500 basis points of market share in the premium segment during the event and retained most of them since the World Cup, reaching leadership of the segment in some months.

We have continued to improve a lot of the execution in the premium segment with a dedicated sales force, market and logistic team focusing on the premium high end, including crafts. Premium grew 20% in 2014 with Original, Stella Artois and Budweiser growing double digits. It already represents 8% of our volumes and we are confident it we will continue to grow well ahead of the industry.

Innovations, amazing. We start to capture volume opportunities in occasions where our share of throat was historically been low. Brahma 0.0% became one of the most successful launch in our history. Launched in 2013, it's by far the leading brand in the non-alcoholic beer market and already represents 1% of our total beer volumes.

In the second half of the year, we launched Skol Beats Sense, a totally new liquid with 8% alcohol content to tackle the night out occasion. And within CSD, Guaraná Antarctica outperformed the industry again, while Pepsi also gained market share this year, driven by a strong marketing execution and the successful implementation of our returnable bottle strategy. We had, in 2014, our best CSD market share ever with 18.8%, while our (20:19) portfolio continue to grow even faster than CSD.

With that in mind, when you look at 2015, the macroeconomic environment continues to be challenged, but we actually remian very excited in our commercial plans and the opportunities that we see. First, we will continue to focus on elevating our core brands (20:42) 360 sales and marketing approach with solid above-the-line campaigns, experiential events, and the strong appreciation through digital platforms.

The new scope summer-long campaign is a great example, and the brand metrics and performance have significantly improved since its launch. At the same time, affordability remains high in our agenda. Our winning package initiatives, mainly through returnables and our revenue management strategy will be a strong tool in competitor advantage in the current environment.

Second, we have a robust game plan to continue to lead fast-growing premium segment. Original, Brahma, Stella Artois, Budweiser continue to gain weight in our total beer volumes and Corona is coming and is a great addition as well as the Wäls brand, a partnership with one of the craft beers in Brazil we announced two weeks ago.

Third, we continue to target share of total opportunities through innovations and tailored execution models to support these initiatives. Scope (21:56) activation during (21:58) in

Brazil was simply amazing. That shows this potential of share of throat that we have here. And this is just the beginning. Our pipeline remains full and strong.

Fourth, as we leverage the state of the consumer needs, we're able to enhance our strategy in different consumption occasions. In out-of-home, we improved our execution in the trade for a truly experiential activation. And then in-home, we will focus on the consumer habits while at home, a new frontier for us, while making and doing a significant better shopping experience in the off-trade channel.

I often got asked, is this new approach means more margins? It is important question and the answer is, no for some important reasons. One, a significant portion of the new investment below the line will actually confirm a rebalance to our current investments. Two, most of the consumer occasions where it would be relevant is very small and very low, represents not only a funding opportunity, but a higher net revenue per hector opportunity as well offsetting any additional cost or expense related. And three, being an intrinsic part of our culture, our DNA, we will keep looking for cost management opportunities, mainly our fixed and non-working money base.

With that in mind we expect in 2015 our top line in Brazil to grow mid to high single digits in the full year. Our cash COGS in Brazil to grow mid to high single digits in the full year. Notice there, we are guiding for total COGS in Brazil as opposed to COGS per hectoliter, so a change versus previous used guidance. Within this way, you have a more positive guidance at both net revenue and COGS level. Brazil cash SG&A to grow below inflation in the full year. In fact, CapEx in Brazil is foreseen to be up to 2014 levels. We are very positive in the plan that we have here and that we'll continue to deliver strong in 2015.

So thank you. With that, I can hand over to Gary for the Q&A.

Q&A

Operator

We will now begin the question-and-answer session. The first question comes from Antonio González with Credit Suisse. Please go ahead.

Q - Antonio González

Hi. Thank you for taking my question. Welcome, Bernardo and hello, Jamel. Just wanted to make a question on these initiatives that you're mentioning about share of throat. I guess two components of the same question. First, are you already in a position where you can help us quantify these share of throat initiatives from a volume perspective maybe in 2015, both more importantly on a three- to five-year basis?

And secondly, maybe on CapEx. As you pursue these strategies trying to get share of throat, how much of the CapEx of the total CapEx will be shifting away from industrial into commercial investments? I don't know if you can mention probably in 2015, for instance, is the flat CapEx year-on-year is coming mostly due to a great sight in commercial CapEx and what specific initiatives you can share that you're doing that from? Thank you so much.

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

Okay. I think that – Antonio, thanks for the question. I think that for the volume, as we said before, we made this 32 years ago, we have been studying a lot about that. We have the volumes. We have the size of the opportunity that you have there. And I think that you can capture there with malt-based liquids and special execution in the channel occasions that we have, very hard to disclose that for you. I think that we'll not do it.

But what I could say that, there are – I mean, very relevant volume there. There's something does not capture. I mean, from one day to another day, but if the right products, the right liquids and the right business model to capture there, I'm sure that you can do it. And I think (26:28) is pretty good example. And if you we are here in Brazil or someone that knows Brazil a little bit better, (26:36) we just would see, I mean, many, many funds was called and (26:42). So because in this state that there are – a consumer have is different than for a lighter beer, and the volume is pretty good. So just saying that the opportunities are there and I think that we disclosed that to you. We cannot do it, no.

So, Jamel, can you comment in the CapEx a little bit?

A - Nelson José Jamel {BIO 16334129 <GO>}

Sure. Hi, Antonio. Thanks for the question. As you'll note, I mean we guided for 2015 CapEx up to the similar levels of 2014. But you are right, you have a point in the sense that we have been significantly reducing the part of the capital that is, let's say, purely capacity-driven. Of course, it's not over. So, for instance, we're going to have this year the opening of our new brewery in Paraná in Ponta Grossa. It's going to be one of our important breweries in Brazil.

But no doubt that this reduction will happen in terms of the pure capacity-driven CapEx. And then when you move, the flipside of it is that for sure, we're going to be investing more in what we call the consumer or commercial type of CapEx. Here, we include them in coolers where we see opportunity to increase our coverage in an important way maturing in the marketplace.

We also include here all the investments we are doing in terms of direct distribution, which has grown last year and since last year on asset base, particularly in Q4. So there is indeed a shift in terms of the quality or the mix of the CapEx, but what we are guiding for, even for competitive reasons, is on the total CapEx level.

Q - Antonio González

Sure. That's helpful. And on the commercial side, is it going to be both, I guess, CapEx and OpEx as well that you will be executing in 2015?

A - Nelson José Jamel {BIO 16334129 <GO>}

Yeah. We have a component of – for sure, we're going to also have guidance on SG&A that we mentioned that's going to be below inflation, but we think SG&A, we always focus on improving efficiency, more productivity, reducing what we call non-working money, right, are focusing on the fixed costs so we can free up money and resource to continue invest behind our brands and that of course, innovation and this broader framework that Bernardo just explained.

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

And I think just to add, Antonio, we have been studying a lot as a team to be more effective in terms of investments, not only from above the line needed below the line activation in the trade. That's why I said that some people asked me, okay, those things that you do, I mean the share of throat agenda that we need to maintain our core businesses as well. This will imply more OpEx or more investment or – I mean, let us always say that we have opportunity in the cost side and have opportunity to be more efficient in the investment that we have been doing. So, no. I mean, we don't see kind of significant growth in terms of OpEx because we from investments that maybe are not so – that efficient today but could be better later. So that's the answer.

Q - Antonio González

Perfect. Thank you so much and good luck again, Bernardo.

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

Thank you, Antonio.

Operator

The next question comes from Fernando Ferreira with Bank of America. Please go ahead.

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Hi, Fernando Ferreira here. Thanks for taking my question and welcome, Bernardo. I appreciate the comments regarding the long-term opportunity, but just wanted to talk a little bit more about 2015. I mean, we know that volumes will have the tough comps, right, especially in the first half of the year, so just wanted to know from you what's the innovation pipeline that you're preparing for this year to try to sustain volume growth in 2015?

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

Yes. So thanks for the question. So as we always said, our goal is always to grow top line and this in line with our guidance, as I said. And to think about beer volumes in 2015, I mean, the fundamentals are there. I mean, Brazil demographics are healthiness, premium grow, innovations I will comment later.

The macro environment does not help us, but you don't see a significant headwind at this point. So we don't see a significant macro impact in our volume. You see a similar macro environment impacting in the volumes that we had in the second half of 2014. World Cup will be a headwind, we know that. So how to compensate that? I mean, the headwind of World Cup, yes. We have innovation, not only innovation from new things, but improving the way we do things in our core business.

So when you have a opportunistic activation campaign season in marketing, what we're saying that can use the same money in a much better way because it can connect the mass of the brand that you put above the line in the digital product form and in the trade. And they are pleased that you have in the volume that's a measure that are much higher. And they're taking the core and do it better. It's a opportunity and then we implement. So there's one way assess this headwind of World Cup.

And then we have the innovations. First carry-over innovation that we've done last year. And you have 0.0%, you have cents and have more to come. I would say that we have at least two new things that will enter in the market this year that are relevant. So, at that point of time, I mean that's what I can talk to you. Okay, Fernando?

Q - Fernando F. Ferreira {BIO 2389113 <GO>}

Okay, perfect. Thank you.

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

Thank you, Fernando.

Operator

The next question comes from Andrea Teixeira with JPMorgan. Please go ahead.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Hi. Hello. Thanks for taking my questions and thanks for the remarks. My question is on the 2015 guidance. So just on the impact of the packaging mix in the COGS and SG&A, as I understand that obviously you have some easy comps on, I would say, on the packaging side for more consumption on premise, and I appreciate that you've done.

And I think Bernardo has mentioned consumption in bars, and I was just wondering what's behind fairly conservative top line growth in 2015 mid single-digits to high. I mean, if you're below the range, it's quite conservative given that you have some premium effect going on and premium market share being rolled over into 2015. So if you can help us reconcile a little bit of that. If how much you're expecting mix to be a headwind or would expect it to be a tailwind. Thank you.

A - Nelson José Jamel {BIO 16334129 <GO>}

Okay. Hi, Andrea. It's Nelson. Let me start with the question on COGS and mix. I mean, actually we talked about this in 2014 that we had sort of extraordinary impact from a mix perspective during the 2014 FIFA World Cup. If we will exclude this packaging mix impact driven by the event, actually our COGS should have grown mid single-digit in line with our net revenue. But actually in our mind, margins have been flat to even slightly up, right.

Of course, this is a modest plan. I think you have a point in terms of one way growing faster than RGB, and we have talked about this many times. I mean, it's not new. We don't see a lot of special trends that could put our gross margins at risk because we have other initiatives in place to have said that. And has been doing this along the way. If you look five years ago, RGB represented around 65% of our mix.

Right now, it's about 60%, I mean, returnable gas bottles. And our gross margin along the way, they were pretty much flat during this time. Some years, it was more expensive. Some years, it was more competitive, depending on how we serve such event. Of course for 2015, we're going to – we already guided for 2015 and explicitly talked about our currency hedges. So we're going to have an implied FX in our COGS for 2015 around R$2.31 which of course is better than the spot ratio. We protected for the year and have a very good visibility. So we feel very confident about the impact or the outlook for COGS. And as I said, it really already accounts for the expected impact of mix changes year-over-year.

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

Hi, Andrea. How are you? Good to talk to you again. So talking about top line guidance, I think first of all – I mean, like we said, in terms of the macro that you expect for 2015, you'll in line of 2014 second half. So, say – I mean that you get numbers, it will be around flat like the second half last year. And then, yes, we'll have the premium mix. We'll have innovation coming, but also have this headwind of World Cup. So I'm just saying that – I mean mid high single-digit, I think that's a fair one at this point, so all those issues that I just told you. So that's right.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Okay. And on the SG&A just on the advertising side, is there any savings that we could – those savings, I'm assuming you're going to be reinvesting those in the new innovation and initiatives, correct?

A - Nelson José Jamel {BIO 16334129 <GO>}

Andrea, I think similar to what Bernardo just said on the top line when they're going to have, let's say, the headwind from the World Cup, which by itself helped our volumes around 1.7%. So if you take last year top line growth without the World Cup impact could have been high singles. So that's sort of a comparison you could make in the top line level in terms of the hard comp. When you the SG&A, it's the other around. That's why we are guiding to an SG&A growth for next year lower than our top line growth because you're going to have some easy comps in terms of expenses. And regardless all the investment that we want to do and we'll do for this future, we still believe that SG&A will grow at a lower level than our top line in 2015.

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

And link that for efficiency that you just said, I mean, if the SG&A is below inflation, then you find ways to invest in top line and build not only 2015, but the future. We'll do it. I mean, you can bring the efficiency to the bottom line. You can bring the opportunity that you see in the marketplace as well.

Q - Andrea F. Teixeira {BIO 1941397 <GO>}

Thank you very much. Fair enough.

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

Thank you, Andrea.

Operator

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

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much. Good afternoon, Bernardo, Nelson and everyone. My question goes back to the guidance on the COGS. I wanted to rescind actually how conservative are you at saying you are on it, because I understand that the currency you hedge here signals 5%, 5.5% increase year-over-year. But when you combine with the fact that I believe your material cost has dropped in U.S. dollar terms, plus the easier comparison base for 2014 mix given that you don't have the World Cup this year, my first sense is that you could deliver at least at the lower end of the guidance or even lower than that, so it would be nice to hear your thoughts on it and other components that you see driving the cost in Brazil this year.

And a second question, which might actually help me understanding the first one is, I understood that you no longer break down the expectations for volume and pricing in your revenue growth guidance for the year, but – and I know you already spoke on a very high level about volume trends this year, but it would be nice to understand how you see that the balance – that was very balanced between price and volume in 2014, how you see that moving into 2015? Thank you very much.

A - Nelson José Jamel {BIO 16334129 <GO>}

Hi, Thiago. Thanks for your question. This is Nelson. Let me start with the COGS points. I mean, indeed when we put our guidance for 2015, we took into account pretty much the moving parts like you cannot describe. I mean, in fact we have a lower or less of a negative back in terms of our currency valuation because ways. It goes from 220 roughly to 230, 231, that's around the 5% increase on that per hectoliter basis, right, if you look for their dollar-denominated part.

But, of course, there is, I mean, inflation on the remaining COGS which is on other forward trends average inflation. We have considered of course the back of commodities in dollar terms and actually they have a less of a benefit this year. We have some commodity that are actually at a higher price than what they were last year given the timing of the implementation of our hedge, right, so we are normally one year in advance of the – one year later of the spot price.

So we took all that into account and we have switched a guidance and at this stage, we don't feel. We are ready to indicate that we should be at the lower or upper end of the guidance. The guidance has a range and that's the one that I expect to be within.

Regarding top line, I will ask Bernardo to comment on our views for 2015.

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

Hi. So thanks for the question. I think, as I comment before, I mean, the basis on this strong foundation that you have – that we have, the macro and the comment as well, the headwind of the World Cup, but all-in-all we have different ways to see that and to pursue the balanced top line growth that we need. So at this point, we have to say that we'll be more mix, more volume, more price, knowing that we have a very clear guidance of price that we price in line with inflation plus tax.

So that's why we decided for now, I mean, to guide only the net revenue growth. And more important that, as we discussed in the speech here before, we continue to feel confident in our growth trend, that we have a solid top line and EBITDA growth into 2015, despite the economic environment and the macro in Brazil.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay, thank you.

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

Thank you.

Operator

The next question comes from Alex Robarts with Citi. Please go ahead.

Q - Alexander Robarts {BIO 1499637 <GO>}

Yes, hi. Thanks everybody. Going back to the share of throat idea and your language regarding the outlook really suggest that you see significant volume opportunity here with the beer category, vis-à-vis the other alcoholic categories. And I'm just wondering to the extent that that can be driven by the premium segment and so the question really is, you've talked about a 20% growth rate in that part of your portfolio last year. Obviously, the Cup was very important behind that. And we understand that today, the premium part of the portfolio is growing double digit in sales in Brazil.

And as we think about this particular year being almost 10% of your portfolio, how do we think about the growth that might come from let's say the full year of the Corona brand? The growth that might come from craft, you've launched Belo Horizonte very recently and made an acquisition in Minas. Can craft grow to be as we've seen in the United States to kind of 10% of the industry over time?

And do we get finally some trading down from these more expensive alcoholic category, spirits and wine, into the beer category? Is that part of your thinking when you talk about the volume opportunity and share? So, sorry, kind of various pieces to the general question on share of throat opportunities. Thanks very much.

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

Thanks, Alex. Good to talk to you again. So, I mean, talking about premium, for sure, we'll continue to go ahead of the industry not only in 2015, but in the years to come. So the first thing. I think that the near-beer opportunity, I would say, the share of throat opportunity, they come with a better margin, yes, and they will help us to grow ahead of the industry this year and the next years.

And, yeah, based on all these studies that we have, the opportunity is big, as I said before and we have the plans, the business model how to operate there and get the liquids, malt-based liquids to touch – to tackle those mistakes that people have. So I think that our share of throat at the end of the near beer products that we'll launch will help us premium, Bud, Stella and Original so on, so forth, the brands that you know.

The other question you said, it's crafts and then they always say it's people that before thinking about of craft liquid, it's important to understand a consumer need to take, why people drink craft in many, many countries and then what, based on the experience that we have in other countries. So look, we can tackle those mistakes. It's the current and great portfolio that you have, not only in the domestic premium brands that you have but international premium that you have as well.

Having said that, yes, we'll try to make some deals with some important – I mean, crafts beer in Brazil. We've done one with Wäls, great. Bohemia variance will have – we have a role here as well. But I don't think that the craft in Brazil will be 10% of the volume that is in U.S. We always say that this movement in U.S. starting in the 1980s and have – I mean, 25 years or 30 years of that. And here, I mean, they are just starting and we know much better how to handle those need states that people have. So I think that we can do with the current portfolio of the new brands that we'll launch and including some craft beers here and there.

Q - Alexander Robarts {BIO 1499637 <GO>}

So, yes. That was clear. On the Corona piece, though, is it fair just to think about that as more of a tactical rollout this year as opposed to full-on national rollout? If you could just – it was the last piece of the previous question.

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

Yeah. Sorry about that. Many questions, Alex. I think this brand is amazing. So we will see this brand in the right way. We will not go above the line campaigns. We will go below the line. We will bring experiential activations for this brand.

We will put this brand not everywhere. So we will see this brand and have good volumes for this year. But the key success factor of this brand this year is not the volume; it's the way that we'll and how – I mean people will desire to have this brand.

So Corona is not a beer. It's a way of life. And obviously, it's (47:32), people like the brand and then it's really amazing. And then we will do the right things for the brand here. And you saw a good volume, but again, the most important thing we really think that this brand could be great. It's a premium brand, very good margins and you do it in the right way.

Q - Alexander Robarts {BIO 1499637 <GO>}

Got it. Okay. Thanks a lot.

Operator

The next question comes from Jose Yordan with Deutsche Bank. Please go ahead.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Hey. Good morning, Bernardo and Nelson. I was going to ask a question about share of throat, but I think I'll pass. There's been no discussion about the impact of potential water and electric rationing in Brazil and I realize, I mean, most of your plants were probably self-sufficient in that. But have you, in your SG&A guidance, budgeted for the possibility that there'll be production interruptions in some plants and you may have to truck beer from long distances together on this potential crisis or are you basically going on the premise that it won't impact you at all?

A - Nelson José Jamel {BIO 16334129 <GO>}

Hi, Jose. I'm Nelson. Thanks for your question. I mean, these are hot topic; I mean water, energy, potential risk and crisis in Brazil. But it's not something new, right, and has been working on this for a while.

Specifically, in terms of water, what we anticipate is that, and of course, we look into different scenarios and more optimism, more pessimistic and in all of them, we don't see any reasonable risk of product shortage. So we believe we'll be able to fulfill demand in any circumstance. Of course, the worst the scenario becomes, there is more of a risk of some additional logistic cost because we have the footprint. You know that the interest more concentrated in the southeast, so we have the opportunity to, of course, move products back and forth if needed. There will be of course some additional costs, but nothing at this stage that we could anticipate to be material at this point or as much as something that could change our guidance. I mean, we think we could accommodate within the current guidance giving the scenarios we have run so far, and again we have looked at the different sort of scenarios.

Q - Jose J. Yordan {BIO 1496398 <GO>}

And in terms of electricity, you had generation everywhere from the last crisis. I think you had invested in generation capability...

A - Nelson José Jamel {BIO 16334129 <GO>}

No, we did. I mean a good portion of our energy – I mean, using our plants is already according to the rate. I mean, we have been not only reducing consumption year-over-year with new technologies and energy efficiency programs, but we have also been investing in our own capacity since 2001.

From a cost perspective, we believe that that will be even lower even in the worst scenario. Given the effect that energy represents only 3% of our cost of goods sold and more than 5% of what we consume is either co-generated or hedged through long-term projects. So for a cost impact, we don't anticipate any major impact in our P&L.

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

And Jose, I mean good talk to you again after many years. And just to add that is that to – that earning have been working this – I mean in this comping our DNA or our culture with excellence for many, many years. So to be more efficient is not only a cost thing, but really moments like that to be really ready to any drag. So that's what's happened. So I mean, now efficiency in terms of (51:14), in terms of energy, in terms of how to deal with that, they're pretty good. They are not pretty good now, I mean, have been doing business 20 years. So I think we think that it can handle this crisis in the right way.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Great. Sounds good. Look forward to see you.

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

Thank you.

Q - Jose J. Yordan {BIO 1496398 <GO>}

Goodbye.

A - Nelson José Jamel {BIO 16334129 <GO>}

Bye-bye.

Operator

The next question comes from, and pardon me if I mispronounce this, Luca Cipiccia with Goldman Sachs. Please go ahead.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Thank you. No, the pronunciation was correct. Good afternoon, Jamel. Good afternoon, Bernardo. I was hoping you could spend a bit of time to move the conversation along on the non-alcoholic beverages as well. Just to understand both for 2015 a little bit more broadly as well. Looking ahead, how do you see that playing out in your strategy, in your vision on the discussion on the share of throat?

And as well on the capital deployment opportunities, you announced a new buyback today. I was wondering whether you see opportunities maybe in that space to deploy some of the excess capital that keeps piling up and if I can brought maybe this topic again, capital allocation, cash deployment, maybe if you could shed some light on how you see that. How should we think about that under your new tenure? That would be helpful.

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

Luca, thanks for the question. I think that the CSD, I mean, just comment more about beer because we like to, I mean, to focus on this message in the fiscal. But all the concepts that said in terms of the business, the fundamentals are valid for CSD as well, including the growth strategy that we'll have.

So, first of all, I like the core, so we'll continue to do that. While our manufacturing is doing pretty well, that should grow as well. And then we just launched Guaraná Antarctica Black, it's an amazing innovation in our core business so it's online in this facility, the core. And then, we have – we'll go for premium brands, market accretive brands that we have here, not only in the soft drinks business, but you have other portfolio that you get with Pepsi. The energy drinks as well that can bring in this premium acceleration as well.

So this year, in fact, big so we'll connect with our brands with people in general in a much more relevant way. We're big sponsor of Rock in Rio, just one example, and want to talk about that not only sponsoring this factual but applying that. We seek the approach sales and marketing. It's already in campaign above the line, below the line. These are the things that I've said will be applied for soft drinks as well. So, for the ability, again, innovations will help us, I mean, in the core, in the premium like Hello that's flavored water brand that we launched and it's doing pretty, pretty well.

So affordability again, that's the same part of the strategy that I've said before that will become a core business part of soft drinks as well. So the one year, returnable bottles is doing pretty, pretty, pretty good. So, I would say that is an important business for us. We will continue to invest on that and I mean, the same concept of the growth platforms that I mentioned before will be applied in that for the soft drink business.

Q - Luca Cipiccia {BIO 6914452 <GO>}

And Bernardo, do you see opportunity to expand the portfolio as well? Is that something that maybe come more relevant going forward whether it's acquisition or new categories?

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

Yeah. So we see – so Hello is an example, a new launch. Acquisitions or other things, we don't talk about that. But I think that as we talk in beer, the same is valid here. We see opportunities to improve and enhance our portfolio.

A - Nelson José Jamel {BIO 16334129 <GO>}

And hi, Luca. This is Nelson. I should take the second part of your question in terms of capital allocation. I think, first of all, we had another year of very strong cash flow generation and continue to improve our working capital management which, as you know, we are in a negative position.

So the payables outstanding are bigger than the investors and accounts receivables, the more you sell, the more you generate cash. And if this sort of cash we generate, I mean, of course the thinking process remains the same. I mean, first, we want to reinvest the organic growth of the business. I think it captures everything we just talked about today. We, I mean, have a lot of – we have plenty of opportunity to invest and with great returns. So that's priority number one.

Of course, we consider as well some very selective and targeted non-organic growth opportunities. Of course, it's more difficult to predict time and if and when management actually could occur. But I think if you look into the last time we did something in this area that we think was relevant was the CND, Cervecería Nacional Dominicana deal in 2012. That is a good example of very targeted acquisition, and by the way, has already delivered a lot of value and we're taking a lot value from the amazing performance. They guide us at delivering then in Dominican Republic.

And finally, even after all that, I mean, as we continue to have what we call this excess cash, we return to shareholders, I'll see we'll continue to be the priority. Again, no change in this area given the tax stability, and the remainder should be paid out between dividends and/or share buybacks. Actually, we have a minimum dividend that are above – that are at a higher level today, a minimum 40% of our net profit and we just announced a share buyback program. So it all fits into our total payout strategy that that as you know, I mean, I have been increasing payout consistently given the strong results and it all starts with the strong cash flow generation that I just talked about and the opportunity to see it going forward.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay. Thank you. Thank you very much.

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

You're welcome.

Operator

Our next question comes from Robert Ottenstein with Evercore. Please go ahead.

Q - Robert E. Ottenstein {BIO 1498660 <GO>}

Thank you very much and congratulations, Bernardo, on the new position. Can you talk a little bit perhaps about Canada? There's a lot of things going on there. You've got Corona now. SABMiller is going to come into Canada in April with Miller Brands, probably Miller Lite and you have the trend from returnable glass bottles to cans. So perhaps maybe you can kind of just talk about Canada, big picture, your strategy, how Corona changes things and how you're going to deal with these different challenges.

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

Yes, Robert. I mean, thanks for the question. We have been, I mean, close to Canada as well, I mean, in the last four years and I think that, again, the same concept that the same growth prior performance, that will take – I discussed the (58:21), they will apply for Canada as well. And if you think about core business and elevating the core business, that's also we have been doing for Bud Light for many, many years. So Bud Light is, I mean, have been growing share for the ninth consecutive years. Budweiser is a very, very strong brand there as well.

And talk about accelerated premium really, I mean, grow premium with beer and with the near beer innovations is exactly the same. The portfolio that we have there is pretty, pretty strong. I mean, Corona, I mean for sure will help a lot and was very close of the launch there. I mean the guys hand over the brand. I mean it was pretty, pretty good job in the right way and I think that Corona will bring to us for sure good deals, but not only Corona. If you see Stella Artois, I mean it's a strong brand there. It will have the domestic premium that strong as well. And then it's not only the brands; we are implementing the same thing at certain business – I mean, mindset in terms of how to operate the premium brands.

So with sales and marketing, do it in a different way, above the line. Lots of experiential below the line so apply to Canada as well. And I think that Canada last year was a pretty good year. We have a market share both the previous year. And what I see, it's a much more stronger brands that have now put follow-up brands that we have before. Corona helped us, but not only. The (59:57) has been nurturing in the last many, many years. I think that this – all this job is paying back and I really think that Canada could perform pretty well in 2015 as well.

So Jamel have a comment.

A - Nelson José Jamel {BIO 16334129 <GO>}

I think the – just to add to this point, I think when you look into the performance in Canada, it's also important to remind yourself that we just took over Corona since March, right. We didn't have the event for the full year. And of course, during the hand-over transition of course took a while so that we couldn't really get started. So clearly, we had in the second half of the year in Canada, I mean, the performance that we expect from the brand for the business as a whole and we saw this growing and getting better along the year. So we get in 2015 in a very positive trend.

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

And I mean, looking to the question of SABMiller, quite frankly, we have been dealing with SABMiller entry in our markets, in many, many market. I think they're doing pretty, pretty well. So we work hard. We respect them but no concerns. I mean, we will play in the right way.

Q - Robert E. Ottenstein {BIO 1498660 <GO>}

And then just on the trend to one way in the cans and what impact that may have on your cost structure.

A - Nelson José Jamel {BIO 16334129 <GO>}

Well, we don't see – no relevant impact not on cost structure today in Canada. When you look at – we don't provide a specific guidance for COGS in Canada. But when you look into the business, I mean, we remain constant that when you look altogether, I mean mix change but also premium growth, high end segment becoming even more relevant, especially the brand activation that we have been – all the progress has been implemented in the market. We feel very confident about the business more than the business growth going forward.

Q - Robert E. Ottenstein {BIO 1498660 <GO>}

Terrific. Thank you very much.

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

Thank you.

Operator

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

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

Thank you. Bernardo, can you – coming back to Brazil Beer more, my question is pretty much in line Alex, but if you could share more details with this share of throat plan, I think it's really interesting as I'm looking at this now. But I understood your comments that you expect consumers trading from spirits and wines to premium beer, and I guess that's pretty much what happened in Argentina in the past years.

But do you also see share of throat opportunity in the mainstream segments? Do you expect to gain market share from Cachaça or to cheap spirits in the Northeast because I think that's quite interesting, given that Brazil is after all considered a country of soccer and beer, right. And when we look at beer consumption, it's been gaining share, a lot of share in the past years from Cachaça. I think beer represents the 90% of total volumes in terms of alcohol. So just wanted to understand if you also see a further market share gains from these cheap spirits and if you have quantified this plan on top of the 1.5% demographic opportunity you mentioned, if you have quantified this share of throat opportunity. Thanks.

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

Thanks a lot, Gabriel. I think so – I think that – I mean the study that we've done and the solutions that we're bringing to the table address the full share of throat opportunity. We always say human beings same need states. How to fulfill those need states could be different according to the culture that they have, according to the – I mean, how affordable that specific product is.

So having said that, yes, I mean it's not only with innovation if a near beer product and some malt-based and so one that we will address the share of throat opportunities. Our core brands will play a role. Our affordability plans needed develop the core. I think that I mentioned to you we will play role as well. So, embedding this opportunity, yes, we have embedded opportunity. We don't talk about specific – ones specific liquid but I can say that, yes, we saw opportunities in many, many kind of, I would say, levels of our pockets or disposable income that people would have because they have same need states and then we can address those need states in different way with the full portfolio.

That's why we always say that it's – at the end of the day, it's a portfolio gain. If you have a portfolio, a strong one with a very strong brand into your core business and then you can build the beer business on top of that. That's where we're doing the premium and near beer occasions to address all the need states and all volume opportunity in the beverage alcohol landscape. Clear?

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

Okay. Okay. Just one...

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

Thank you.

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

If I could just make one quick follow-up on the tax benefits, you're getting more than R$1 billion now, right, in tax benefits. So I suppose that most of it is linked to the Northeast and I just want to know if you have any restrictions regarding distributing those benefits into dividends.

A - Nelson José Jamel {BIO 16334129 <GO>}

Hi, Gabriel. It's Nelson. Well, we also had a strong finish, I mean a good performance in terms of government grants in Q4, as you may have notice. Of course, this is linked to the CapEx that we did in 2014, which was also R$3.1 billion in which we had the new plants included like a new plants in Minas Gerais. Also expansions on plants that we opened up recently. So if you go to (01:06:07) of course is not a new plant but it has been increasing more juice and capacity in lines, so with all kicks in and gives us an advantage.

The more we have volumes concentrated and growing in plants that have such grants is better for us. We continue to see this as an interesting upside for 2015 and going forward, and that's primarily the reason why it is line grew. And important to say, there is no one-off. These are long-term contracts and we continue to see them out in all performance moving on.

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

And no restriction to distributed, right?

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

Yeah, there are some specific rules in terms of distribution and we have to create some reserve. By the way, I link it to the investments we did, but it doesn't changed there. The potential, the full potential to have for payout in distribution as well as the corporate restructure we did in 2013, we have plenty of room to increase our payout.

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

Got it. Thanks Nelson. Thank you, Bernardo.

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

Thanks.

I think that for the final message, I hear guys – I see really great growth opportunities ahead of us. I mean, our long-term plan, it's a long-term plan but the 2015 presents as well, both of them – both plans are strong plans and have a great team here and a great team for more than 25 years, I mean hard and delivering big in good moments, in the bad moments as well. I mean, it's part of our DNA. So I'm pretty confident, 100% confident that it continue to deliver big and will deliver in 2015 as well. So that's my final message.

A - Nelson José Jamel {BIO 16334129 <GO>}

Thank you, Bernardo. Thanks everybody for joining us today as well. I apologize if any question could not be picked up, but of course, we're available to follow up: myself, Marino or the IR team after the call. And once again, great to talk to you today. Thanks for the question and looking forward to speaking with you again on our 2015 first quarter earnings conference call on May 6. So thank you. Bye-bye.

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

Thank you. Bye-bye.

Operator

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