Q1 2016 Earnings Call

Company Participants

- Bernardo Pinto Paiva
- Ricardo Rittes de Oliveira Silva

Other Participants

- Alexander Robarts
- Andrea F. Teixeira
- Carlos Laboy
- Jeronimo De Guzman
- Lauren Torres
- Luca Cipiccia
- Robert E. Ottenstein

MANAGEMENT DISCUSSION SECTION

Operator

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

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

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

I would also like to remind everyone that, as usual, the percentage changes that will be discussed during today's call are both organic and normalized in nature, and unless otherwise stated, percentage changes refer to comparisons with Q1, 2015 results.

Normalized figures refer to performance measures before exceptional items, which are either income or expenses that do not occur regularly as part of Ambev's normal activities. As normalized figures are non-GAAP measures, the company discloses the consolidated profit, EPS, EBIT, and EBITDA on a fully reported basis in the earnings release.

Now, I'll turn the conference over to Mr. Ricardo Rittes, CFO and Investor Relations Officer. Mr. Rittes, you may begin your conference.

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

Thanks, Kate. Hello, everyone. Thank you for joining our 2016 first quarter earnings call. I will now guide you through our operational highlights of Brazil, CAC, LAS, and Canada, including our below-the-line items and cash flow. And after that, Bernardo will give you additional color on our operations during the quarter and we will also explain why we see our top line and EBITDA performance improving in the quarters to come. We will then move to Q&A.

Starting with our consolidated results. We had a soft start of the year as solid results in CAC, LAS, and Canada were offset by a negative performance in Brazil, especially in Beer. Top line was 2.6% with a volume decline of 7.7% and a net revenue per hectoliter growth of 11.6%. EBITDA was up 1.1% to R$5.3 billion with an EBITDA margin of 45.5%.

In Brazil, I would like to highlight that the first quarter results were weak as anticipated, and that we're not changing our guidance for the full year. Top line was down 4% and EBITDA declined 5.5% in the country lapping a comparable base of 18% growth in the first quarter of 2015. Beer volumes were the main driver for such results. On top of the adverse macroeconomic environment, we faced a hard comparable base mainly due to early Carnival and price increases to mitigate taxes, not only impacting an already depressed industry but also leading to an expected market share loss in the quarter. As a consequence, beer volumes were down 10%.

Net revenues per hectoliter was up 6%, driven by our revenue management strategy including the benefit of premium, but partially offset by the higher mix of returnable glass bottles in our total volumes. RGBs, while EBITDA margin accretive due to a significantly lower cash COGS per hectoliter carry a relative lower net revenue per hectoliter. With net revenues per hectoliter growth not fully offsetting volumes, beer net revenues were down 4.6%, while negatively impacting our top line. The growth of RGBs helped us to mitigate a good part of the currency and inflation headwind, driving strong COGS performance in the quarter, also helped our hedges and procurement savings, cash COGS per hectoliter was up only 2.9% in the period. We also over-performed in SG&A, driven by low- to mid-single-digit growth of sales and marketing and distribution expense and a decline in administrative expenses. As a result, cash SG&A was flat in Brazil Beer in the first quarter.

Other operating income was down driven by top line decline and geographic production mix. Despite our COGS and SG&A performance, Brazil Beer EBITDA was down 8% in the quarter.

In Brazil CSD & NANC, the carbonated soft drinks industry continued to be pressured by a negative disposable income growth. Our volumes were down 3.8%, better than the industry performance as we estimated.

Within the energy drinks, Fusion continued to over-perform, growing volumes and became the second largest energy drink brand in Brazil. With the net revenue per hectoliter increase of 3.7%, Brazil CSD & NANC top line was flat in the quarter. Despite that, Brazil CSD & NANC EBITDA was up 13.3% in the quarter mainly driven by a low-single-digit increase in cash COGS and a mid-single-digit decline in cash SG&A.

Turning now to CAC, Central America and the Caribbean. We delivered another very strong quarter with EBITDA reaching R$379 million coming from R$218 million in the first quarter of 2015. This was a 28% organic increase and a 74% nominal increase. This outstanding performance was mainly driven by double-digit volume growth and solid EBITDA margin expansion of 260 basis points.

In the Dominican Republic, we further expanded Carnival Presidente, activating demand and growing top line by connecting with our consumers through relevant platforms. In Guatemala, we continued to improve our execution with Brahva and Modelo brands, especially Corona, with a strong summer activation.

Along with strong top line, our EBITDA performance also benefited from our solid financial discipline, leveraging on both costs and expense savings, mainly in the Dominican Republic, expanding our EBITDA margins for another quarter.

Now moving to Latin America South. Our top line was up 15.1% and EBITDA 15.4% above that of last year. Our volumes were down 10.4% but adjusted by the Peru CSD exit in the third quarter of 2015, this decline would have been of mid-single-digit mainly due to macroeconomic conditions in Argentina, which were partially offsetting by, number one, in Paraguay, we had a solid performance from mainstream to premium portfolio, mainly with Budweiser, and, number two, in Chile, along with another quarter of great performance of Corona benefited from the successful incorporation of Budweiser to our portfolio in the country.

Within the CSD & NANC segment in that region, while still pressured by macroeconomic environment in Argentina, we remain very excited with Guaraná Antarctica roll out in that country. Net revenues per hectoliter increased by 28.6% in the region, explained by our solid revenue management strategy, linked to inflation and premium mix. With costs and expense pressured by strong inflation mainly in Argentina and unfavorable currency movements, we continue to make use of our cost management capabilities and benefited from a better product mix to protect our profitability. Our EBITDA margin was up 10 basis points to 44.9%

Moving now to Canada. Reported volumes grew 5.8% mainly driven by beer industry expansion, due to favorable weather and an extra selling day in the quarter. Number two, solid performance of Bud Light, Corona, and Stella Artois, which each grew volume mid- to high-single-digits, and Goose Island IPA, which is among the fastest growing craft brands in Canada. And, finally, the benefit of our strategic acquisitions in the fast growing craft, ready-to-drink, and cider categories, leading to the 9th quarter in a row of market share gain.

Net revenues grew 2.3% in another quarter of good balance between volume and price. Net revenues per hectoliter increased by 1.3% mainly driven by our revenue management initiatives and the benefit of premium mix. EBITDA was up 5.7% in local currency, benefiting mainly from our recent acquisitions, while flattish on an organic base, negatively impacted by currency devaluation and higher investments in sales and marketing, partially offset by lower administrative expenses and phasing of distribution costs.

Now moving below EBITDA, our net financial results totaled an expense of R$1.2 billion in the quarter compared to R$500 million last year. As we already explained in detail in the last quarter mainly due to BRL devaluation and higher interest rates. Our interest expense increased in a significant way compared to one year ago, some of these expense are cash, some of these are non-cash and have a no economic impact, In the first quarter, we had, first, interest income of R$185 million driven by our cash balance mainly in Brazilian reais, U.S. dollars, and Canadian dollars, this is cash. Second, an expense of R$360 million due to interest expenses. Off this expense, roughly R$160 million is a non-cash accrual related to the put option associated with our investment in the Dominican Republic. As part of the Cervecería Nacional Dominicana deal in 2012, a put option exercisable until 2019 was issued, which may result in an acquisition by Ambev of the remaining shares of CND for a value based on an EBITDA multiple. This non-cash accrual expense increase over time as we approach 2019 as EBITDA growth, currency devaluates, among other factors.

Third, R$417 million losses on derivative instruments mainly driven by the carry cost of our FX hedges, primarily linked to our COGS exposure in Brazil and Argentina.

We have a disciplined hedge policy, pursuant to which we are always hedging the U.S. dollar denominated portion of our COGS in all countries we operate along with any other cash risk that could arise from FX and commodity movements, both in payables and receivables. This result is primarily linked to our COGS exposure in Brazil and Argentina. And one important thing to highlight is that depending on the hedge instrument, the cash impact might differ in time from the time of the expense accrual. Another important point is that also the payment on the instrument, interest rate moves can generate non-cash monthly gains or losses which can explain the quarter volatility of this line.

Fourth, R$245 million losses in non-derivatives mainly due to non-cash foreign exchange translation losses on intercompany loans which are offset by foreign exchange translation gains on equity, which have no economic impact.

Fifth, other financial expenses were higher due to a one-time cash impact from a roughly R$200 million legal claim that became payable during the quarter.

Our effective tax rate was 10.4% down from 24.3% last year. Along with a higher benefit from interest on capital, there were no material other tax adjustments versus a one-time negative adjustment of approximately R$660 million reported in the first quarter of 2015, which was related to intercompany loans. At that time, we not only flagged these other tax adjustments as a one-off, but also highlighted that this negative impact was expected to be reverted going forward which holds true.

Higher financial expenses were almost fully offset by lower effective tax rate with normalized profit being slightly down year-over-year at R$2.9 billion.

In line with the anticipated weak operational results, we also had a soft start of the year regarding cash flow generation. I will guide you through the major drivers. Starting from a similar net profit and cash flow generation before working capital and provisions of last year, we will describe the impact of the working capital.

Given the fact that we have a negative working capital position, every time we grow our business, there is a positive working capital impact as cash generated by payables is significantly higher than that utilizing receivables and inventories. The opposite is also true and as a consequence of the tough quarter anticipated, we had a roughly R$1 billion cash flow coming from receivables, but R$3 billion as a result of (15:55) payables. Cash generated from our operations was R$2.3 billion while CapEx reached R$707 million.

In terms of cash taxes, the abnormal high number for the quarter is expected to be diluted in the quarters to come and the shorter the period we look at that line, the harder it is to reconcile with effective tax rate. As a note, in this quarter, we had the lowest effective tax rate, which was 10% compared to 24% in the first quarter of last year.

In summary, similar to operational results, we see our cash flow generation accelerating in the quarters to come. During the quarter, we completed and paid for the acquisition of Mark Anthony's Group, a cash outflow of R$1.3 billion and paid out R$2.1 billion of interest on capital.

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

Bernardo Pinto Paiva {BIO 7186008 <GO>}

Thank you, Ricardo. Hello, everyone. In the first quarter, we had mixed results with a strong performance in Brazil CSD & NANC, CAC, LAS, and in Canada. And a weak performance in Brazil Beer that, while anticipated, drove the soft start on a consolidated level. So I would like to concentrate my comments today in two topics, one, what exactly happened in Brazil Beer in the first quarter; and, two, why we see our performance improving in both top line and EBITDA in the following quarters.

So starting with the topic number one, what happened in Brazil Beer in the first quarter? So, first, we are facing a very challenging macroeconomic environment in Brazil. We know our industry tends to be more resilient than others. First, every time we'll have negative disposable income growth as we have now, beer industry will suffer (18:10). On top of this, we had already anticipated some temporary but important headwinds.

So, second, we had a hard comparable base due to the early Carnival that happened in the beginning of February in 2016 compared to late February in 2015. The sooner the Carnival, the sooner the summer ends in Brazil. Historically, we've had a weaker first quarter whenever we faced an early Carnival.

Third, we also had hard comparable base on tax. Given that the new federal tax model became effective only in the second quarter of 2015, first quarter of 2016 will be the only year-over-year comparison on an orange-to-apple basis. VAT tax is also increased in some states. Every time we have a tax change, the industry suffers for a couple of months before stabilizing.

Fourth, on top of the already depressing industry, the fact that we had to implement unusual price increase to offset high inflation and taxes led to a challenging market share dynamic in the first quarter that we expect to be short-term in nature.

Moving forward, let's discuss the second topic, why we see our performance improving in the quarters to come? One thing, an important thing I would like to stress, we are never pleased with weak results even in a single quarter, but we don't manage this business by months or quarters. We will always operate a short-term guided by our long-term strategy.

With that said, we had already anticipated a challenge beginning of the year in our 2016 forecast, with a plan to accelerate the following quarters. The macroeconomic scenario continues to be adverse in the country and we expect no relief, but we have already lapped the hard comparable base of the first quarter and April volumes reflected this, trending much better versus the previous months. Along with that, we took advantage of this adverse scenario in the first quarter to accelerate top and bottom line initiatives that, while not able to offset this quarter's weakness, will play a key role in our performance going forward.

Particular emphasis is being given to our pack price strategy, with returnable glass bottles gaining weight in a material way in our total mix for the first time in many quarters. But not only that. When looking to the evolution of all of our five commercial platforms, we feel really confident about our strategy in order to deliver in 2016 while building our future.

Within elevate the core, brand preference trended higher for another quarter. Again, the positive trend of brand preference way above our market share, shows the full potential of our brand and allow us to plan to fulfill this potential. In other words, we do expect to recover our market share loss in the first quarter in a disciplined and sustainable way.

Our premium volumes grew strong double-digits for another quarter with a solid performance of the full premium portfolio, Budweiser especially is the leader in the segment. Premium preference is high and there is still significant opportunity to improve our performance. As a consequence, even in this environment, we see premium growing ahead of mainstream, driving positive price and EBITDA mix.

Within near beer, Beats family more than doubled its volume with the Skol Beats Spirit launch in the first quarter. Brahma 0.0 continue to lead the non-alcoholic beer segment in Brazil, growing volumes by double-digits in the quarter. Near beer is already a reality in our portfolio, but the opportunity is much bigger. By further improving our execution of Skol, Beats family, and Brahma 0.0, and leverage on a solid pipeline of new liquids, we will continue to target occasions where we have a low share of growth, capturing incremental volumes in a profitable way.

In the in-home occasion, RGB volumes continued to grow above 100% in supermarkets. I repeat, above 100% in supermarkets. And we want to do it in the right way making it sustainable. It's good for consumers, it's good for the environment, and it's good for margins. This is a huge shift in consumption behavior in Brazil with important implications for the short- and long-term. It's still connected with in-home occasion, we have been accelerating our off-trade market programs in both small and big off trade formats, improving the assortment and the mix of our products, implementing smart discount and rolling out CRM models.

In the out-of-home, similar to Carnival, sports and music events execution, we have been structuring ourselves to expand our activation in key selling moments, boosting experiences such as St. John June festivals, regional parties, and the Olympic Games. These are key opportunities to activate demand and build brands. Affordability also plays an important role in the out-of-home occasion, with the 1 liter returnable glass bottles growing volumes and mix year-over-year.

Along with our focus on top line, we are also taking advantage of our cost management capabilities which have helped us in the past to improve our profitability in different cycles. Significant cost savings and efficiency gains were already achieved in the first quarter, setting a lean base for the year and we will continue – and I repeat again, we will continue to positively impact our profitability in the quarters to come in a material way.

In summary, we continue to focus on what we can control, living our culture every day and boosting initiatives to have a leaner and more agile organization. We remain confident in our initiatives to deliver solid performance in Brazil despite the weak start and volatility – and the volatile scenario expected for 2016. We have no change to our guidance in Brazil for the full year. And while Brazil represents close to two-thirds of our results, our international operations have proved to be a great asset throughout the years and we continue to do so in 2016.

Before closing, I would like to welcome the whole team from Do Bem and tell you how excited I am with this partnership. We have found a team with a big dream to reach the whole Brazil with the amazing juices and teas, et cetera, in fun and colored boxes addressing the growing well-being trend.

With that, we can move to the Q&A. Thanks.

Q&A

Operator

We will now begin the question-and-answer session. The first question comes from Lauren Torres of UBS. Please go ahead.

Q - Lauren Torres {BIO 7323680 <GO>}

Yes, hi, everyone. Bernardo, not to be too short-term focused as I know you're not that way too, but as you use the words that April was much better as far as volume trends versus the first quarter. I was just curious to get your perspective on – that was mostly a comparison point or you're seeing some of the initiatives that you put in place really to take hold in April? I guess my broad question here is when you provided us with Brazil guidance earlier this year, it's kind of the component of getting to that guidance have changed, meaning if the environment gets tougher as we course through the year, if there is different things you need to do to get there?

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

Lauren, thanks for the question. I think that basically what you see – the plan that have been put in place after this price increase in the first quarter, things that have been working well. And then we saw positive results in our volumes not only due to the industry but for the recovery of the market share. So this is the main reason, those two things I think that the industry came better and the recovery of our market share is going on, as we speak. So that's why, I mean we had better volumes in April. So, basically it's that, so.

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

Lauren, it's clear for you?

Q - Lauren Torres {BIO 7323680 <GO>}

Clear. Like I said, I'm just trying to get a sense on – maybe even other words that you use with respect to material procurement savings and efficiency gains that came through in the first quarter and will get you leaner for the rest of the year. I mean was it always weighted to the first half of the year? I'm just trying to get a sense of the timing because it seems like some of the margin contraction and pressure we saw in the first quarter, may be a bit amplified and that's kind of the reason why we should expect things to trend better as we course through the year?

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

In terms of the – in the cost side of the business, since it was your main question, second question. I think that based on our values and on our culture of owners, I mean we always try to operate in a leaner way and then think that the flipside or one of the silver linings of this macroeconomic environment is that you can operate better, I mean we operate more efficient. We can speed up new process. And with that, I mean, we expect to continue to have good results in terms of in the cost side of the business, without putting at risk our future, I mean without any risk in terms of investment decision and marketing. And just to remind everyone, I mean cost for us is not a one-off thing, it's part of our daily life and that this team is a great team and we need to go there and have a lower cost, the creativity of the team appears and then I mean you see great ideas and the faster implementation. So we expect to continue to deliver in terms of cost savings throughout the year.

Operator

The next question is from Andrea Teixeira of JPMorgan. Please go ahead.

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

Hi, good afternoon. Thanks for taking the question. Just Bernardo and, I guess, Rittes as well, the one question that I have is below-the-line. I understand that below-the-line you had a bunch of, there is a legal. And if you can elaborate on that and the legal expense what it relates to as well, because that I understand is cash. And also with the Dominican Republic put option, that is also related to obviously the amount in dollars, but I'm just confused because we have been having that below-the-line impact since last quarter. And I understand like on a sequential basis, I mean the real has appreciated and I understand that from Rittes comments that also is related to the growth in EBITDA.

So how we reconcile and so how cleaner, I would say, related to the first question as well, I mean, how front-loaded we are seeing these expenses in your – for all my years, I haven't seen anything of this sort of magnitude below-the-line. So I was just wondering if we can expect a little better over the course of the year or this volatility should continue. So that's the one question. Thank you.

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

Perfect. Thank you very much for your questions. Well, let me go a little bit in more detail and, again, throw a light on our net financial results. The net financial results total expense of R$1.171 million versus R$481 million in the first quarter of 2015 and it was mainly due to five things.

First, interest income, like we said, this is cash.

Second, the expense, that is R$360 million, in this quarter is impacted by the R$160 million of Dominican Republic. The way it works, this is a put option that our partners in Dominican Republic have against us so we do have an obligation to acquire the business. We also have a call but this call does not impact our P&L, this obligation that we have, the more the business grows, the more value is the business, the larger is the obligation. So, let me give you a little bit more detail as you requested. At any given and fixed multiple, when you look at the nominal growth of that specific region of CAC, which is 70%-plus, you should have a little bit of a guidance of what to expect. That's the nominal part as we report in Brazilian reais.

Third, there was a R$417 million loss on derivative instruments which is essentially the carry cost of our hedges. This is primarily linked to our COGS exposure and we do have a disciplined hedge policy pursuant to which we always hedge in the U.S. dollar denominated portion of our COGS that goes both for Brazilian reais and Argentina pesos alone. Of course, that in local currency every time you have a devaluation on a year-over-year basis that's what we are comparing, that's why there was a devaluation year-over-year basis. The exposure in local currency increased and, as a result of that, also the carry cost increased. And another important point is that also depending on the instrument, interest rate moves generated non-cash monthly gains and losses. And finally, the cash impact might differ in time from the expense accrual also depending on the instrument. So being a little more prescriptive, if you have futures, you have daily cash settlements. If you have forwards, you have concentrated cash settlements.

Number four, there was a R$245 million losses in non-derivatives and this is essentially a non-cash foreign exchange translation loss on intercompany loans, which were offset by foreign exchange translation gains on equity which therefore do not flow to the P&L. But, nonetheless, there's no economic impact.

And fifth, there is this other financial expense that were higher due to a one-time cash impact from legal claim that became payable this quarter.

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

And so, can you elaborate on the legal, what is this legal claim?

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

Absolutely. So we have – that was the legal claim that we paid in advance during that quarter, because whenever we have an opportunity to anticipate liabilities with NPV gains, we do it. So I think that's the extent we'll disclose the market.

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

I had trouble hearing you, I'm sorry, could you repeat that?

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

Absolutely, that was a legal claim that we paid in advance during that quarter. And the point is that whenever we have an opportunity to anticipate liabilities, with significant NPV gains, we do it. And I think that's the extent that we're going to disclose on that specific.

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

Okay. And then going back, Rittes, on the hedge, I mean, usually like the counter – usually the hedge is supposed to be – for example, if you're long dollars here mostly, you had this appreciation of the real on a relative basis, you would have an impact here negative below-the-line. But then on the COGS, then you would have a positive impact. So, obviously, your gross margin declined in Brazil. So I was wondering – and kind of also on a consolidated basis – so I was wondering why we saw this mismatch? I mean, obviously I'm limited to what I can see in Bloomberg on the quotes, there is always like short-term some mismatch on the timing. But I was just curious if you can talk to us more in details, why this happened specifically in this quarter that we couldn't see in the previous quarters and previous years? I mean usually it follows and there is some deleverage on the operating leverage lower, because the volumes are lower, I understand that. So perhaps if you can tell us, okay, it could have been better. The gross margin would have been better and we have a positive impact or tailwinds from the hedges on the COGS. But we had to give back much more below-the-line, because the real appreciated against our long positions in dollars. So can you – I mean, is that a fair assumption?

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

Andrea, if you don't mind, we can get back to you in more details, because the way we see it, like our COGS performance is significantly below inflation, and is in line with the guidance for the full year that we anticipate. That reflects the benefit of our hedges, that reflects also the procurement initiatives that we have and I think that we can go into more details with you specifically.

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

Okay.

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

When you look at on a year-over-year basis, I'm not understanding exactly what the point, because on year-over-year basis, first quarter of 2016, there's devaluation compared to the first quarter of 2015. So I want to go with you later to understand exactly what's the point there.

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

Yeah, but I understand the hedge, I understand the cost side, but the hedges don't have that. I understand they are mark-to-market on a quarterly basis, right, that's my trouble understanding this, but I understand, we can talk offline.

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

Just to be very clear with you, just in terms of the hedging. The hedging doesn't go the mark-to-market of the hedges into the P&L, because we have hedge accounting. It only goes specifically the hedging of that specific portion. So whenever the movement in the quarter of the FX as we have hedge accounting, it doesn't flow to the P&L. It's on the carry cost of the hedge that flows into the P&L. I don't know if that's clear for you. I don't know if that is the source of your question.

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

Okay. No, it's fine. We'll talk offline. Thank you.

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

Okay. Thank you.

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

Thanks, Andrea.

Operator

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

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi, Good morning. Thanks for taking my question. Just one about volumes and market share. I think you made some comments how the certain segments continue to do well, premium continue to do well. I was curious to understand whether there is sort of a part of a strategy as well of – or maybe leaving behind sort of the low-end or the more mainstream part of the market at a time where you may not be as profitable as you would like. We've seen some of your weaker competitors somewhat stabilizing after it's number of quarters of negative volume growth. So my question is really maybe if you can qualify by segments the performance of the first quarter as well as whether there is, to some degree, an intentional flexibility to lose some market share maybe in parts of the markets where you don't see – you don't foresee that they're attractive at this point in time?

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

Luca, thanks for the question. I think first of all, I mean every volume in Brazil it's a profitable one. You always fight to get the volume in any point of sale in any place. I think linked to the market share, I mean and basically what happens, it's simple in order to explain. So we never – I mean, we never do price increase in the first quarter, I mean it's not the best moment of the year to do it. And we've done that because we have state taxes mainly in the end of last year that was in some states and important values. And as a company that leads that market, we'll let the price increase. And every time that we lead a price increase, we lose share. And that's basically what happen. When you see a price increase that you have a comparable base in the previous year that you had the same price increase in the previous year, you don't see that variance in this market share. But as I said to you before, this was an unusual price increase given to the taxes compared to a quarter last year that did increase price. So this is the main reason of this one-off in terms of the market share that we saw in the first quarter.

Having said that, we have a recovery plan in a sustainable way that we include the use of the pack price strategy. RGB playing an important role that understand the mix of regional brands, how it can play with the portfolio of brands to really recover our market share in a faster way. And then basically April show us that we in the right path of that.

I think this is basically the market share that's most affected by the core business that we have here. We have a kind of company side or company here that's a premium company here, that's our P&L and everything. This premium company is growing a lot. The volumes of premium beer is growing strong double-digits as I said before. We are leading the way with Budweiser in the premium segment and then we're growing a lot. So, this is the silver lining of this moment because the premium industry suffered less and we are leading the way on this specific segment. And then, another legacy of this tough scenario – external scenario that we're pushing that have seen that could help us in the future. On top of the premium, we have two important things. First, the RGB industry, just bear in mind, that it's a way to bring affordability with great brands, good for the environment, good for the customer, good for the margins, it's a big, big change in the behavior consumption and I think that, I mean, could last and will last even when the country starts to grow again.

And the second thing, all of those things of the key brand selling moments that we are putting in place and stretching ourselves, we are learning more and more how to activate demand in key moments, not only during the Carnival but in other moments during the year and then you will see this as the year ends. So basically that's it. So in terms of the market share, that's why we said that was a one-off quarter in terms of the market share.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay, very clear. Maybe a quick one on Do Bem, just if you can share your thoughts on how much – your distribution could benefit in the expansion of that brand given we're talking about a different kind of product category maybe something you haven't operated before. Is there's any indications you can give us in terms of scale, market share or actually benefit from incorporating such a, let's say, emerging brand into your portfolio, that could be interesting.

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

I think – I mean, first, I think to go to Do Bem, I mean have been studying the consumer in the need states for some years and deep and dive in the trends and we all know that the well-being trend is growing in Brazil and will grow even more. We launched Skol Ultra and it's doing well. And this is a trend that is there. So I think that a portfolio of great juices and other liquids that we have there in Do Bem together for a great image of that brand. I think it will be a great platform for us in the future. So this is why we bought this specific business. So I strongly believe that this will address the need state – some of the need states, the well-being one that will grow in the country.

Linked to the other question how we can, I mean, reach more folks or not, I think that operational excellence is an obsession for us here. I mean, we are doubling up our focus in operating with excellence because we know that the portfolio of brands is growing. And then, we are really focused on that, we're facing a lot, consumer-centric company, I mean we are pushing this big, big, big time, but together with operational excellence to be able to operate the portfolio of brands that we have. And we will apply this operational excellence to the portfolio of Do Bem, and that's why we think that this brand will grow with a great partnership that we have with the team at Do Bem that's a very creative entrepreneur team that will help us to grow this brand in the future.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay, thank you. Thank you very much.

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

Thank you, Luca.

Operator

The next question is from Rob Ottenstein of Evercore. Please go ahead.

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

Great. Thank you very much. I just wanted to revisit the returnable glass, the migration to returnable glasses. You mentioned that this is a positive for margins, that it's profitable for you but on a unit basis does it increase gross profits or decrease gross profits?

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

Hi, Robert. This is Ricardo. Well, let me just go through a little bit on the RGB impact, we're very excited with that going forward. So, among other things, the cash COGS this quarter benefited from the positive mix of RGB, which Bernardo said, grow more than 100% in the quarter. So, roughly what happens is RGB carry a lower net revenue per hectoliter so it's a more affordable option for consumers, but it allows also us with a much lower cash COGS for us. So it's accretive in terms of margins being also environmental friendly so it's healthy – it's good for the environment, it's good for the consumers, and it's good for the company. So that's one of those trends in which we find a sweet spot being like great for the consumers, great for us, and also great for society as a whole. That's why we are so happy and somehow excited with the growth of RGB year-over-year.

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

Okay. But does it help your gross profits or is that something that you're not able to determine?

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

Yeah, absolutely. That's what I said. It's accretive. Yes, it's accretive.

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

To absolute gross profit on a per unit basis?

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

On a per unit or per volume basis? Because per unit, the returnable glass bottles that we're increasing is the 300ml bottle, so depending on the size of the container that we are talking about, of course then you have to do a per unit basis on one. But one of the key elements of driving affordability is making sure that on a per unit basis you have a less disposed value, less out of pocket. On a relative basis, it's accretive, yes, absolutely.

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

Okay. And then, can you talk about your relative competitive advantage in returnable glass bottles because, if I were to think of the kind of growth that you're getting there and I understand why you lost market share in terms of being a price leader. I would have thought that the tremendous growth that you're getting on returnable glass bottles would have offset a lot of that. And I guess maybe the business is just too small to do that, but perhaps can you talk a little bit again of your competitive advantage there. And to what extent that is offsetting any market share losses and will then further accrete to market share gains later in the year.

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

Hi, Rob. Yeah, it's a very good question. Thanks. I think, first, I mean we know that basically in the operational skills that we have, a proposition, and the brands that we have, the RGBs will help us in the market share. By the way, it is helping this month in April. But in the moment that we increase price and you lead the price increase in that specific moment it was during the first quarter, I mean the history of all price increases that we had in our history, in Ambev, we lose share in every package. But the recovery, and how you structure a pack price is strategy with the brand is linked shows that you can recover faster if you have a better pack price strategy. And not only faster, in a sustainable way, that's the RGB brings to the table as well. Because one-way cans, you can always, I mean if you reduce prices, you get share back faster, but it's not sustainable. RGB means sustainable market share growth.

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

Terrific. And then just one other follow-up, as you kind of step back and look at the consumer in Brazil and disposable income and consumer confidence, all those different sorts of factors that drive demand, in your sense is it worse today than it was at the beginning of the year, have things stabilized, how do you read the consumer at this point, and how different is it today than it was at the beginning of the year?

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

Robert, we are facing a diverse macroeconomic environment in Brazil and we expect a very challenged 2016. As you know, our industry tends to be more resilient than others, but whenever there's a negative disposable income growth, we have an impact in our business mainly on volumes. That said, as we anticipated before, the first quarter presented some temporary headwinds that amplified the macroeconomic impact and the performance we saw should not be extrapolated for the full year. We do expect our performance to improve in the quarters to come. Indeed, as Bernardo just said, April volumes already trended a lot better than the first three months of the year. And we have just confirmed our guidance for the full year. So I think, in summary, we focus on the things that we can control and the things that we cannot control, we live with it.

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

Okay, thank you very much. Appreciate it.

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

Thanks Rob.

Operator

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

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

Hi, good morning, I had a follow up question on the RGB impact, specifically on pricing. I mean, we did see a big deceleration in the net revenue per hectoliter and you mentioned that this had to do in large part by the higher mix of returnables. But I just wanted to understand why the impact seem so sudden, as I thought that returnables had already been increasing at a pretty fast pace in the last few quarters of the last year, so just wanted to understand why the impact was bigger this quarter than what we had seen?

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

Hi, Jeronimo, thanks for your question. So, let me start by saying that our strategy continues to be to increase price to consumer in line with inflation plus any tax offset. So that's one of the reasons behind even like the tough quarter we could anticipate. Of course, for technical reasons, we have different price initiatives in different regions with different SKUs, in different moments of the year. So when you look at the short period of time, it might be at some point above inflation, some points below, but the strategy is very important to say does not change. Along with that, the growth in the quarter was partially offset by the increased mix of returnable glass bottles. For the first time in many quarters, RGB gained mix in a material way. RGBs while EBITDA margin accretive, carry a relatively lower net revenue per hectoliter, so negatively impact our top line. And when you look at the comparable base, we are lacking a year in which RGBs grew, like Bernardo just said, over 100% in supermarkets. So, total volumes of RGBs in the supermarkets in Brazil grow over by 100% versus the first quarter of 2015.

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

Yeah, I mean I guess what I struggle with a little bit is in the fourth quarter you also had a very strong growth in RGBs and you still had – I forget what it was – above 11% or around 11% revenue per hectoliter growth. So are you saying that maybe at the beginning of the year some of the price increases were still not quite catching up to inflation, but for the full year you will still see that strategy playing out?

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

No, Jeronimo, what we are saying is that when you compare the net revenue per hectoliter of 6% below that of the inflation, you have a mix that's different this quarter, first quarter 2016, in comparison to the first quarter of 2015. But even when you comparing, that's very important to highlight as we are accelerating that trend, even when we compare, the weighting of the total volume – the weight of returnable glass bottles in supermarkets, the off-trade channel, in the quarter has increased even over the last couple of quarters. So, this trend is accelerating.

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

Okay. Thank you.

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

And for reference, the numbers that we have share because we tend to share only numbers of the full year. In 2014, the weight of returnable glass bottles in supermarkets was roughly 4%. In 2015, this number for the full year was 14.4% and what we're seeing that, yes, we accelerated over the course of 2015 and accelerating in quarter.

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

The weight was much higher in the first quarter than in the last quarter of last year. And then to be very candid, I think that we're catching up with the operational part of the business in the supermarkets to deal with the demand, because it's simple put, great brands, called Brahma and Antarctica, nice price point, good margins for everyone and moments like that. So – and people will start to talk about not only the affordability part, but how good is for the environment because you have to bear in mind that the young adults, I mean people above 18-years-old, today they're much more environmental conscience that I mean I was to be when I was 18-years-old. So, I think that's it's an important trend that not only touch – it's an important initiative, not only touch affordability but touch the environment and mindset that the young people have today.

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

Okay. Thank you.

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

Thanks, Jeronimo.

Operator

The next question is from Carlos Laboy of HSBC. Please go ahead.

Q - Carlos Laboy {BIO 1506984 <GO>}

Yes, good afternoon. To stay on that subject, what is your refillable glass mix now versus a year ago? And you can invest more in RGB than anyone else in the industry. Is this RGB strategy and its economics powerful enough to carry you above 70% market share?

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

Hi, Carlos, how are you? I mean we don't comment in terms of market share, but what we can comment in terms of the RGB, I think as I said before, it's affordable. I mean great brand behind. It's environmental, I mean in terms of the sense, it's great. And then what we see, it's everyone open for business. The consumer is open for business, the customer is open for business. So what we are doing, that is big bet of last year. In every quarter, we are expanding the volume, expanding the mix. We are catching up to operate even better in the stores together with the customers to assure that the demand of this RGB is well supplied.

So it's important that it's the full strategy per channel. So we are adjusting, as we speak, as well, I mean the power packs per channel. So the 300ml RGBs for the off-trade and then the 1 liter, that's growing. 1 liter is doing well, bringing affordability to the on-trade channel. So I think that RGB, it's – again, it's important bet I think that links the trends of I mean affordability, environmental. And then the last time that we push a trend like that was in 2011 and then we had great results of market share. So that's why we think that it's not only the RGB, the portfolio of brands, the presence of brands are very, very important. The premium growing ahead of the premium industry and it's very important as well, but RGB strategy will be key for us to deliver the market share we want in the future.

Q - Carlos Laboy {BIO 1506984 <GO>}

So, what is your refillable glass mix now versus about a year ago?

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

Yeah, in terms of – we can't talk about that, but what I can – for competitive reasons, but what I can say that in our mix we see evolving a lot the mix in the off-trade. That was the channel that we didn't have. The mixes on-trade is evolving as well but we have RGB in on-trade, you know that, but even on-trade is evolving. And in the off-trade, big time as well as strong last year, beginning of last year almost nothing to, I would say, in some areas 30% of our volume in the off-trade, 40%, 50% depends on the state, depends on the area on the affordability issues that you have in the regions of Brazil. So I still see room to grow. That's what I can comment, Carlos.

Q - Carlos Laboy {BIO 1506984 <GO>}

Thank you.

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

Thank you.

Operator

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

Q - Alexander Robarts {BIO 1499637 <GO>}

Thank you. Hi, everybody. I wanted to go to Central America and the Caribbean. The one question that I have relates to volume and profitability, and this was actually for us a positive surprise. It's basically approached to almost 10% of the group EBITDA in the first quarter, larger than Canada. And there seem to be, because of the top line, a step-up, right, in the margin. So I guess the question is kind of several pieces, but the 10% volume growth, is this what you're seeing in the industry, and, if not, who are you sourcing market share from?

The last market share number I remember from a prior conference call was, I think, in the region of 42%. I mean, is that – could you revisit that number for us, are you above that? And kind of strategically, I guess, when this SABMiller deal comes to a close and I know – and I'm not going to ask a specific ABI question here, but is it fair to assume that the competitive environment could actually change and soften considerably? Would that kind of accelerate the potential for market share gain in the region? And would there be any anti-trust issues? To the extent that you can comment on that, that'd be great. So that's my CAC question. Thanks very much.

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

Hi, Alex. Thanks for the question. I think that in terms of CAC, the same platforms that we always talk to you here, elevate the core, accelerate premium, near beer, and so on, out-of-home, we're implementing there. It's the same mindset, understanding the consumer insights that we have there. By the way, based on the experience that we have here – that I have, I mean, working in other places, the trends are very similar. Maybe the intensity of the trends are not, but in terms of the strategy, it's the same that are having here.

So having said that, industry is better. I mean, like you see in Mexico, you see the same effect in Central America and the islands there. So industry is helping. But we are performing above the industry. And in terms of share of growth that we measure there, you have to bear in mind that there you not only have beer, but in DR, Dominica Republic, we have, I mean, hard liquor as well. And we are performing with beer and with hard liquor there, and expanding the portfolio to the other islands. So I think it's a sweet spot of a region that's growing, plus a strategy that's the same that we implemented in Brazil, but implemented in a place that the industry grows. So it's a win-win because in the end of the day we can have less pressure for the industry side of the business and because the industry is helping and then we can accelerate and boost even more the platforms in not only the countries that you operate but in other countries or islands that's our entry there. So that's basically the reason that's we are going ahead of the industry there and I think that we'll continue to grow – very confident that we'll continue to grow in an organic way there. So I think, Ricardo, any other comment?

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

No, I think just regarding the SABMiller transaction and (63:14) we cannot comment on that. This is an InBev transaction and we have no comments on that one.

Q - Alexander Robarts {BIO 1499637 <GO>}

Right. But just to understand, I mean is it fair to assume then that you have surpassed this previously released market share number of 42% and is there a reason to believe that perhaps what you've shown, almost 300 bases points of margin expansion here, I mean that we're operating at perhaps a higher sustainable level of profitability in the region or might that – it might – is it too early to call that?

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

I think, Alex, just to highlight what you said in your question and to put things in perspective, we acquired the business in 2012 and with that we had the economies of scale in order to run a business that way we run a business, like Bernardo said, in Brazil. And the EBITDA back then in 2012 which was like a very short time ago, the EBITDA was roughly R$200 million, last year full year results EBITDA of roughly R$1.2 billion, so that's the type of growth. So to answer your question to the extent that we can, the business is accelerating and we're very excited with the prospect of that business going forward.

Q - Alexander Robarts {BIO 1499637 <GO>}

Got it. Thank you.

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

Thank you.

Operator

That concludes our question and answer session. I would like to turn the conference back over to Mr. Ricardo Rittes for final remarks.

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

Yeah. So I think that the final message is I mean what you saw that, I mean, the countries – Brazil is two-thirds of our business here, but in Ambev what you see is that all the other countries helped in the past and continue to help in the future. And linked to Brazil specifically, I'm very confident that the strategy is right and we will deliver as delivered last year what we want. So we're just true believer of that. I mean platform number one that we always discuss, elevate the core. Preference of brands are up, growing quarter-by-quarter. So brands are doing well, yeah, I mean that's good. The portfolio is expanding and the brands are doing well. The premium has more than 10% of our volumes, volume up double-digits, Budweiser leading the segment, so good for the present, good for the future as well. Near beer, we create this industry. So, Beats, double-digits volumes; Brahma 0.0 the same. In-home, RGB doubled the volumes in the off-trade. And, I mean, tackling these important trends of the affordability environment. And then out-of-home, all of that I talked about the key selling moments, 1 liter growing in the out-of-home, it'll continue to help us as well. So, we remain confident that we delivered this year again as we've done last year. So thanks a lot. See you in the next call.

Thank you.

Operator

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