Q1 2014 Earnings Call

Company Participants

- João Mauricio Giffoni de Castro Neves
- Nelson José Jamel

Other Participants

- Alexander Robarts
- Andrea F. Teixeira
- Armando Perez
- Eric A. Serotta
- Fernando F. Ferreira
- Jose J. Yordan
- Lauren E. Torres
- Lore Serra
- Luca Cipiccia
- Thiago Duarte

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and thank you for waiting. We would like to welcome everyone to Ambev's First Quarter 2014 Results Conference Call. Today with us, we have Mr. João Castro Neves, 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.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996 (sic) [1995] (01:23). Forward-looking statements are based on the beliefs and assumption 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 the 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 2013 results.

Normalized figures refers to performance measures before special 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. Nelson Jamel, CFO and Investor Relations Officer. Mr. Jamel, you may begin your conference.

Nelson José Jamel {BIO 16334129 <GO>}

Thank you, Maureen, and good afternoon, everyone. Welcome to our 2014 first quarter earnings call. I'll begin by sharing a few of our performance highlights. We'll only again (03:12) talk about Brazil, the performance in the quarter and what to expect going forward. And I will come back to give an overview of our international divisions and comment on our financial results before moving to Q&A.

So let's get started. In the first quarter, net revenues were up 16.9%, and EBITDA grew 14.8%, with normalized EBITDA margin contracting 90 basis points to 44.8%. If we break this down by division, Brazil net revenues grew 19.1% and EBITDA increased 15.1%, with EBITDA margin actually contracting 170 basis points to 49%.

HILA-Ex delivered 9.6% of metro revenue growth, with EBITDA up 12.1% to BRL 105.5 million, and the EBITDA margin up 25.1%.

Latin America South had a 21.5% increase in net revenues, with EBITDA rising 23.1%, and EBITDA margin expanding 60 basis points to 45.2%. In Canada, net revenues declined by 3.1%, and EBITDA was down 16.3%, with an EBITDA margin contraction of 380 basis points to 24.4%.

João, over to you.

João Mauricio Giffoni de Castro Neves

Thank you, Nelson, and good afternoon, everyone. We had a strong start of the year in Brazil with volume expansion and solid net revenue per hectoliter performance in both beer and soft drinks, leading to a 15.1% EBITDA growth. Particularly in beer, volumes were up by strong 10.9%. Brazilian beer industry momentum improved in the first quarter, helped by lower food inflation and better than expected weather, as well as the easier comps versus the first quarter of 2013, including an earlier Carnival holiday.

As we benefited from this better industry momentum, our execution was crucial to make the most out of the tailwind during the quarter, while maximizing our top line EBITDA growth. When you look at our initiatives, our sales and marketing team executed a terrific job promoting and enhancing our presence Carnival events around Brazil, delivering record volumes during the period. Only in Rio de Janeiro, with a total attendance estimated at above 5 million people, Antarctica was the official sponsor of more than 150 parades around the streets of the city.

The success of our summer without price increase campaign was also determined, driving beer price to consumer to grow below general inflation from January to March. This is probably the first time we have seen this in a season when beer prices would typically grow above inflation, regardless of our pricing activity. Our premium portfolio continued to outpace the beer industry with Budweiser, Stella, and Original leading this growth.

It is also important to highlight the improvement of our execution in the premium space with a dedicated sales force and trade marketing initiatives, driving higher penetration and a better consumer experience in the on-premise channel. There is still a lot to be done but I'm confident we are on the right track.

Innovation has also been an important growth driver in our search to fill the white spaces. Brahma 0.0% became the leading brand in the non-alcoholic beer category in a few months, and Skol Beats and Skol Beats Extreme continue to increase its presence in the night out occasion, growing more than 40% year-over-year.

Last but not least, we maintain our focus toward economic packagings. While always looking for new opportunities, we continue to increase the 300 ml returnable bottle coverage (06:37) into new areas and to consolidate the results (06:40) we were already present. The 300 ml returnable bottle represents a lower out of pocket for consumers and along with the 1-liter returnable bottle allow us to offer more affordable package to consumer in a profitable way.

When we look at our market share, we were down 60 basis points year-over-year but flat on a sequential basis at 67.5%, and we give (07:01) a 67% to 69% historical range.

In the CSD & NANC division, our volumes grew 2.1%, with year-over-year market share gain in CSD at 18.3%, and solid growth from non-alcoholic non-carbonated. Our marketing initiatives continue to pay off. This year, we are once again launching a national TV promotion with Neymar, the Brazilian soccer star and Felipão, coach of the national team, where consumers can register the codes they find in the packages of Guaraná Antarctica, Pepsi, Sukita and Soda Antarctica for a chance to win more than 10,000 different prizes. Last year, we had more than 20 million pin code registrations, driving brand loyalty, new consumers and enhancing the equity of our brands. At the beginning of this year, we also launched the Pepsi 1-liter returnable bottle in addition to our successful initiative with Guaraná Antarctica, which continued to gain share in the segment.

Liquid innovation has also been an important growth driver. A good example is the new H2Oh! Limonetto, which was launched at the end of last year and it's increasing volume in a rapid pace. Going forward, we expect CSD & NANC segment to keep its healthy performance as we expand the volume of our main brands, roll out our recent innovations, and launch new products.

With a volume overview of beer and CSD operations, let's turn to our operational highlights. In Beer Brazil, our top line grew 21% with volume expansion of 10.9%, and a solid net revenue per hectoliter growth of 9.2%. During this quarter, we benefited from our revenue management strategy, but the fact that premium volumes performed well and direct distribution also grew weight, both helped our top line performance.

Cost of goods sold grew 15.8% due to volume expansion and COGS per hectoliter growth of 4.4%. The higher COGS per hectoliter was mainly explained by higher currency hedges, partially offset by lower commodity prices, mainly aluminum, barley and better dilution of fixed costs.

In terms of SG&A, our SG&A increased 18% year-over-year, a higher than usual number but in line with our plan for the year as one should expect a different investment calendar this year given the 2014 FIFA World Cup. This growth is explained by three lines. First, higher sales and marketing expenses as we continue to support our commercial initiatives, but have also started to get prepared for the 2014 FIFA World Cup. During the first quarter, we have already launched our national TV campaign led by Brahma and Budweiser, and kicked off some of our trade marketing initiatives. Second, higher logistics costs driven by volume as well as the increased rate of direct distribution; and third, higher admin expenses. While we still expect our admin expense to grow below inflation in 2014, the timing of variable compensation drove the double digit growth in the first quarter.

Our EBITDA in the Beer segment grew 17.8%, with an EBITDA margin of 50.9%, a compression of 150 (sic) [140] (09:58) basis points when compared to the first quarter of 2013, explained by lower other operating income, given a one time credit reported last year.

Turning to CSD & NANC segment, our top line grew 8.8%, with a volume expansion of 2.1% as already explained, and net revenue per hectoliter growing at 6.5%, mainly driven by our revenue management initiatives and the higher weight of direct distribution.

On the cost side, COGS per hectoliter were up by 4.3% in the quarter due to higher currency hedges, partially offset by lower sugar and aluminum prices.

SG&A grew 18.2% explained by higher sales and marketing expenses, driven by the phasing of some investment also partly related to initiatives planned for the 2014 FIFA World Cup and higher distribution costs due to (10:46) higher volumes and weight of direct distribution. EBITDA in CSD segment was down 1.2% also impacted by lower other operating income. Our EBITDA margin was 38.8%, decreasing 390 basis points year-over-year.

I will turn it back now to Nelson, but I will come back at the end to talk about what to expect for the next quarters. Nelson, over to you.

Nelson José Jamel {BIO 16334129 <GO>}

Thank you, João. I'll now walk you throughout the main highlights of our operate – (11:14) international operations. Starting with HILA-Ex, our EBITDA reached BRL 105.5 million, with an EBITDA margin of 25.1%. Our overall performance remain on the right track with the acquisition in the Dominican Republic continue to deliver on top line and margin expansion opportunities as we approach the second anniversary of our strategic alliance in the country. Besides, we managed to grow the beer category in the country while also improving our CSD volume performance.

In Latin America South, EBITDA grew 23.1% and EBITDA margin expanded 60 basis points to 45.2%. This performance is most explained by top line increasing 21.5%, helped by both beer and CSD volumes growing once again with 4.6% and 2.9%, respectively. And net revenues per hectoliter growing 16.9% in the quarter. Despite the tough macroeconomic scenario in Argentina, we have been able to grow top line in a consistent way, quarter-over-quarter, for quite some time in Latin America South division. And this quarter was no exception, thanks to our revenue management initiatives, innovation pipeline, strong brands and trade execution.

The beer drinks is (12:30) expanding in most of the countries we operate, including Argentina. Besides positive performance in all beer brands in the country, we have also benefited from CSD locations (12:41) once again, since H2Oh! Limonetto and Naranchelo flavors played an important role in our commercial strategy.

And while (12:49) COGS per hectoliter grew 10.5% and cash SG&A rose 23.4% for the region, driven primarily by higher inflation in Argentina. Going forward, we continue to be cautious about the Argentina macroeconomic environment. However, we are confident that we have an experienced team in place, and we can continue to deliver solid results.

Heading north to Canada now, Labatt reported an EBITDA of BRL 210.7 million in the quarter, down 16.3% year-over-year, with a margin compression of 380 basis points to 24.4%. Our volume performance was mainly driven by an industry decline of approximately 3% due to very low temperatures and high precipitation, coupled with a calendar shift of the Easter holiday from the end of March to mid to late April.

This was partially offset by incremental volumes from Grupo Modelo brands, which we started to distribute on March 1, and strong performance from both Bud and Bud Light. Similarly, (13:54) continues to grow, and other high-end brands are picking up brand back to (13:58) momentum, with Alexander Keith's family and Stella Artois, both significantly ahead of last year. Our COGS per hectoliter increased by 1.8%, while SG&A cash expense, excluding depreciation and amortization, rose 5.2% driven by the phasing of sales and marketing expenses.

Looking forward, we'll continue to focus on the balance between reinvigorating the core of our business while taking leadership of the segments growing the most in Canada, the high ends. Regarding Corona, we also remain very excited about the group's opportunity for 2014 and beyond.

Now, I would like to go over the main items between the normalized EBIT of around BRL 3.5 billion and profit of about BRL 2.6 billion in the quarter. Net finance results were an expense of BRL 368.8 million. Our result was negatively impacted by noncash accretion expense related to the put option regarding our investment in Cervecería Nacional

Dominicana, now around BRL 800 million per quarter, and also by higher losses related to derivative instruments in connection with our hedging strategy. At the same time, our effective tax rate reached 17.5%, which is in line to what we had last year.

And last but not least in terms of our financial discipline, which delivered another quarter of consistent improvement, cash flow generated from operations increased 48.8% and totaled around BRL 2.6 billion, while we returned to shareholders a total of nearly BRL 4 billion in the form of dividends and interest on capital. As a result, our net cash position reduced specifically (15:39) from BRL 8.9 billion on December 31 down to roughly BRL 4.9 billion at the end of the quarter. And this figure still (15:49) does not account for the BRL 2 billion of dividends paid as of April 25.

With that said, I will turn it back over to João for his closing remarks. João?

João Mauricio Giffoni de Castro Neves

Thank you, Nelson. Before going to Q&A, I would like to quickly talk about what we expect for the next quarters including the recent tax developments. On April 29, the Federal Government announced they would update the reference-based prices used to calculate federal excise taxes for the cold beverage industry to take effect on June 1. While representing no change on current legislation or any sort of new tax, we were certainly not expecting another federal tax hike within 30 days from the previous one when the Federal Government increased the multiplier by 4%.

We appreciate the fact that the government is trying to address its short-term issues to deliver this year's primary surplus target. But we see any increase way above inflation in a given year as totally inappropriate due to potential volume impact and its consequences for investments, job creation and inflation. Therefore, the cold beverage industry will continue to work on a dialogue with the Federal Government with the intent of showing once again to the authorities that tax revenue can grow the same way but based on a lower tax burden on the industry, enabling a greater volume growth and further investments with no pressure on inflation.

Important to highlight that in any scenario, we'll keep our strategy of passing on any tax increase, always looking for managing the optimal balance between price and volume in order to keep growing our EBITDA in a profitable way. For competitive reasons, we are not commenting about timing or amount of our pricing strategy.

With that in mind, we are maintaining our target of high single to low double digit top line growth, but our investment plans are under review and our previous guidance for 2014 CapEx in Brazil is revised downwards to be below last year level of BRL 2.8 billion.

And to achieve goals (18:03) for this year, there are no shortcuts. We have a committed and motivated team, strong and very loved brands, a well defined plan for the year robust but flexible enough to be adapted to this new scenario, and winning commercial strategies going from our economic packaging offers to our complete premium portfolio.

On top of that, of course, we have the 2014 FIFA World Cup ahead of us. When the opening match begins in five weeks from now, almost 200 million Brazilians and more than 2 billion people around the world will be watching and celebrating the biggest show on earth. At Ambev, we are all ready and excited to celebrate along with consumers our complete portfolio of beer and non-alcoholic beverages. Brahma and Budweiser are the official beers brands of 2014 FIFA World Cup and we're present (18:55) in all of the 64 matches.

But along with our presence in the stadiums and in more than 1 million points of sales around Brazil, we will deliver a unique experience for soccer fans to celebrate their preferred brands through. Twelve (19:10) in the host cities transmitting (19:10) all of the 64 matches along with music attractions. On Brazil games, more than 40,000 attendants is expected in some of these events, delivering an experience only similar to a real soccer stadium.

More than 14,000 events in bars and restaurants of 150 cities all over the country, where we expect to directly reach almost 2 million consumers. Proprietary events such as I am a Brahma and Bud Mansion (19:38) in major capitals, with average capacity of 2,000 people each transmitting (19:43) Brazil and weekend matches along with after-game parties. VIP parties during Brazilian games target on and off-premise marketing activations. All in, we will reach millions of soccer fans during the event. Be it in a stadium, in a bar, or at home with family or friends, we will bring the 2014 FIFA World Cup experience for all, and we will celebrate together.

Along with the volume opportunity in 2014, we firmly believe that by providing consumers with unique and memorable life experiences with their favorite brands, we will contribute a lot towards maintaining and improving brand health indicators even further. So let the games begin.

Maureen, can you remind folks for the procedure for the Q&A?

Q&A

Operator

Yes. We will now begin the question-and-answer session. Our first question is Lauren Torres, HSBC. Please go ahead.

Q - Lauren E. Torres {BIO 7323680 <GO>}

Yes, hi. Good morning, everyone. I respect your decision not to be very specific on pricing plans for competitive purposes. But João, I was hoping you could give us a little sense of what the changes will be on the price reference table, and any, I don't know, broad comments on the industry with what you expect to see on pricing, meaning what the price increases or additional price increases will be.

And then I guess just the second half of the question has to do with the consumer, because I'm just curious, we had the benefit in the quarter from good weather and the timing of Carnival. But I was curious if you are seeing some pickup in consumer behavior, and this is excluding weather and events, that if you think further pricing is taken, we're going to see a notable hit on the volume line. Thanks.

A - João Mauricio Giffoni de Castro Neves

Yes, Lauren, it's difficult to give you a lot of details without getting into the, of course, the price strategy. The thing is what I mentioned just now in the speeches, first strategy is passing on any tax increase and that has not changed. I mean from there, you pretty much can figure out, I mean looking at the tables and different analysts have published – I mean it's public information. There's all sorts of different increases. People know that federal tax is about one-third of everything we pay. That the margin pool takes (22:20) a little bit more than one-third of the total pool, starting (22:26) from the price to the consumer. You can somewhat figure out where this will end, right?

I think if I am to comment just on the tax piece, what I just said, it's – of course, we appreciate the government's trying to address their fiscal challenge, right? But we believe that no tax increase is a better situation because tax increase will always impact industry volume growth, right? We think the government can achieve a similar level in a different manner. But once this is decided and nothing changes from here until June 1, cycle will (23:05) be to pass on any tax increase to the price, we'll not get into the details of the amount and this and that, there is the slight (23:15) review on the CapEx for now.

Talking about consumer environment, I think we are on a better consumer environment than we were last year, for all kinds I mean. We had a very bad weather throughout, not just in the first quarter. So I mean this, according to all the different forecasts, is a warmer year than last year, so that's one positive. The second is food inflation is also better than last year. For the first quarter only, the Carnival makes a big difference and then you have the World Cup. Of course, the World Cup makes a big difference. It's a much more favorable situation.

We are seeing our own performance from an execution standpoint get better day by day. I think the portfolio is stronger day by day, both on the premium but also on our mission to find more affordable matters (24:11) so that we can be present throughout the moments of consumption. So I think all in all, having said that – I think it's bad timing for a tax increase, I mean the amounts and all that stuff, having said that, and assuming nothing will change and we'll pass that on, I think it's a much better environment to have a pass (24:32) increase – a price through increase of the tax from a consumer standpoint, from things that I just said. From the execution level that we are at also throughout, I think we get better every day at managing a more complex portfolio than it was when you look a few years ago.

And then third, I mean the World Cup has an important effect in the next three months. So I'm talking about May, June and July, more so, of course, June and July, but that also leaves a legacy for the brands, giving all the memorable experience that we're going to go through. That's sort of where we stand. But at the very end, we're still expecting the industry volume to resume growth in 2014 and moreover, we are maintaining our guidance of high single digits to low double digits top line growth for 2014.

Q - Lauren E. Torres {BIO 7323680 <GO>}

Okay. Very good. Thank you.

A - João Mauricio Giffoni de Castro Neves

Thank you. Thank you for the question.

Operator

Our next question is Andrea Teixeira, JPMorgan. Please go ahead.

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

Hi. Good afternoon. Thank you for taking the question. I just want to understand if – and I appreciate your comments before, if this is a possibility of being negotiated. I understand that you had not, for competitive reasons, and you're also not giving exact numbers for CapEx. That would be my first question.

The second question, obviously, you do a tremendous job on distribution and initiatives that you described for the World Cup. But if you feel there is any chance that at the trade, especially the modern trade, there could be some disruptions if any manifestation or anything can happen during this time of the year. And lastly, regarding the World Cup of no price increase, I mean since you probably will have to change that strategy, is there anything that could be – that we could see in terms of disruption for your ads campaigns? Thank you.

A - João Mauricio Giffoni de Castro Neves

In terms of – we cannot speculate whether a change may occur or not. So we're just assuming what's published. (26:50) It's going to happen. We think the tax burden (26:55) is already pretty high, right? We already pay BRL 5 billion in federal taxes. The whole industry probably pays around BRL 10 billion. The industry has been investing around BRL 7 billion per year.

So the industry will continue to work with (27:10) showing once again to the authorities that the lower tax burden on the industry, the greater the potential for volume growth, further (27:16) investments and as a result of that, great tax revenue with no pressure on inflation should be the way to go. So having said all this, which I think is very important we continue to talk about this. For the moment, we have to assume it's going to happen, therefore, we have maintain the strategy of passing on any tax increase. We are saying that we will be below the level of last year in terms of CapEx, which I think was the first part of your question.

The last piece with the – regarding to the Copa sem Aumento for competitive reasons, we'll not get into any details of timing, amount, strategy is always to manage the optimal balance between price, mix and volume in order to keep growing our top line, but in a profitable way. Therefore, given that Copa sem Aumento refers in a way to our strategy, we'll not be further updating it in any manner.

Regarding logistics and all the execution, I think the combination of having a lot of experience in managing Carnival and then the Confederations Cup last year, it was a great pilot. For 15 days in six cities, we had a lot to do. We did very well. I mean if you remember we mentioned about 300,000 hectoliters, 400,000 hectoliters of growth last year, which was the best moment of last year.

It was a lot of work to get it done, and manifestations actually had no impact last year. No one was planning for that but once they were out, we have our own ways to finding intel to try to do our best given that situation and given that even with that situation, well manage well. We think regardless of what happened, we're really very, very ready for putting out the biggest show on earth, helping the whole country, helping the government in something that we think will be actually amazing. I think at the end, it will be an amazing World Cup. Brahma and Budweiser are the official brands, we will be present in the 64 matches. Two million people obtaining them, just going to reinforce what I said, 12 (29:23) in the host cities, 15,000 to 40,000 capacity in each of them to get total of another 2 million.

We're going to put out close to 15,000 micro events in more than 150 cities with above 2 million people, we'd have other proprietary events, given that we're a sponsor such as I am a Brahma, the Bud Mansion, (29:43) this will be in this desire to be part of it, that is part of the event, not to mention all the target on and off-premise marketing initiatives. So this will be an experience for all. Our idea is really to bring the World Cup for all the different bars. I mean the bar is the living room of most of us Brazilians. We love to be with our friends, watching games. Last time we had a World Cup is 64 years ago. We've been preparing for this for the past four years, I'm sure and confident that this will be amazing, and we are really ready for it in any way, shape or form. Be it product, the right product, at the right place, at the right time, to really do an amazing job.

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

Thank you, João.

Operator

Our next question is Robert Ottenstein, ISI Group. Please go ahead.

Q - Eric A. Serotta {BIO 6103216 <GO>}

Morning. This is Eric Serotta on behalf of Robert Ottenstein. How are you? Wondering whether you could give some additional color on how you're thinking about the evaluating the return that you're expecting on the increased investment that you're putting behind the World Cup. Sort of could you give us any frame of reference as to how we from the outside should look at measuring that return on the investment?

A - João Mauricio Giffoni de Castro Neves

Yeah. Sure. I mean I think the first thing is given the World Cup, we mentioned last year that we had between 300,000 and 400,000 volume per hectoliter growth, okay, and we said this year, this would be four times that. So we're talking about 1.5 million hectoliters, 1.6 million hectoliters, which is about 2 percentage points additional growth of volume for the total industry, okay. So I mean the industry would not grow 2 more points if it was not for that. So that's one way to measure on a very specific way.

And then the other thing is what I was just saying, that by providing consumers this unique and never (31:54) life experience with their favorite brands, it will contribute a lot towards improving our brand health indicators for the years to come. So I think there is one very specific manner which is through volume and there is this other one, which is more medium to long term, is that your brands are going to be much stronger by you doing this in an amazing manner.

Q - Eric A. Serotta {BIO 6103216 <GO>}

Thanks and just moving north a bit. Any early read on Corona Extra rollout in Canada? And any comment on your pricing – on the price point there? Is that being positioned in the sort of super premium space? Any color would be appreciated.

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

Hi, it's Nelson here. So talking about Corona in Canada, of course, we just started and what you're seeing in these quarter results, first quarter results is just a contribution of the brands. In March, it was still very small but we remain very excited about the opportunity that brand brings to our portfolio and to our position in Canada. Very strong – very important addition to our total portfolio and more important, a brand that has an even higher presence in its (33:12) market share. So it's going to really be a game-changer for us and the position to (33:19) take over the number one position in the high end. That's what we are looking for. We are investing big time in execution, focus on the on-premise, in the high-end urban centers, but also looking to shelf space (33:35) in the off-premise and take advantage of the full potential of the brands.

The price point, of course, is consistent with the high-end segment, so it's an above average. And that's why we think it's going to be important not only for market share, but also for our EBITDA performance this year in Canada.

Q - Eric A. Serotta {BIO 6103216 <GO>}

Great. Thanks. I'll pass it on.

Operator

The next question is Thiago Duarte, BTG. Please go ahead.

Q - Thiago Duarte {BIO 16541921 <GO>}

Hi. Good morning. I wanted to get a sense a little bit on your guidance, why you decided not to change your 2014 revenue guidance in spite of the government decision to increase taxes? I mean I understand that you're not disclosing your price strategy, but is it because you don't expect a large impact, or is it because you're already expecting some sort of tax hike when you first disclosed the guidance? Or simply, I don't know, because you're being conservative? So just want to get a sense if you changed your view or not in terms of the revenue growth for the year.

A - João Mauricio Giffoni de Castro Neves

Hi, Thiago, thanks for the question. I mean basically, what we wanted to do this year, and we've said this many times, is to find a better balance between price and volume. And the idea was to try to bring the price increases towards the average of inflation. I mean that's what we've been trying to do. Regardless of what was our assumption for taxes, what we're saying now by maintaining the strategy of passing on tax increases, there's probably going to be a different mix than we initially thought, okay, but continue to believe industry volume will resume growth.

That's what we said and continue to believe, and that we're going to maintain the single digit to low double. The only difference that maybe potentially before, we wanted to and we still think is better for everyone, volumes would grow more than they were growing and potentially in line or more or less and the price doesn't matter. But now with this, as you pass it on, taxes to prices, there will be once again a bigger impact in this high single to low double, a bigger impact on price than it was there before, if there were no price increases at the moment – or at the magnitude that was announced.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay. Thanks. That's helpful. Just if I could make a follow-up question on the SG&A. Can you quantify how much of G&A expenses increase had to do with these bonus accrual timing thing? And another way to put this is, is it fair to assume that when you think of the SG&A increase this year, since I know that you're keeping your guidance for the year, is it fair to say that you're going to see a pattern that's similar to what we saw last year, which was a very big increase in the first half of the year and then you adjust that in the second half of the year? Of course, the World Cup will have to do a lot with that.

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

Hi, Thiago. Well, regarding SG&A, what we guided for the year is that we actually would have sales and marketing as well as business (37:01) expense growing double digits, but admin (37:03) should grow below inflation. And despite the quarterly results, wherein we (37:10) also grow double digits, this is just about phasing into the timing of bonus accrual. You might remember that last year, we had poor performance in the first quarter there was – (37:23) it's consistent with that. We didn't have as much as bonus accruals we just did in this quarter, so it's just about timing.

We might change (37:30) totally, we think, the plan for the year while (37:35) sales and marketing investments, as you anticipate, I mean it has to do a lot with the phasing before the World Cup. Actually, in Q1, we have even more of a different comp (37:47) in terms of timing of sales and marketing expense because Q2 last year, we already had the Confederations Cup impact. So the difference is for the World Cup, we kind of started earlier the investments and therefore it already appeared affecting Q1 2014, which was not the case last year, but that should be more considered as well in the second quarter. And then for the balance of the year, also sales and marketing should get more favorable in terms of growth rates versus 2013.

Q - Thiago Duarte {BIO 16541921 <GO>}

Okay. Thanks.

Operator

Our next question is Lore Serra from Morgan Stanley. Please go ahead.

Q - Lore Serra {BIO 20729753 <GO>}

Hi. Thanks for taking the question. So I wanted to ask a bit about the first quarter revenue per hectoliter in Brazil and we saw it fall 7% sequentially, which is one of the biggest declines we've seen. I know last year it declined and you talked about the phasing of ICMS. But I'm wondering if in addition to that, you also were seeing sort of the industry moving to a bit more of a – sort of more moderated price increases or whether there was pricing pressure, what sort of drove it?

And then, along those lines and I guess sort of in tandem with the question asked earlier, if the industry is making good to try to sort of get pricing to a level that's not so high relative to inflation and volumes are responding, clearly you were surprised by this tax news. I think that's pretty clear. And I know you don't want to comment whether it can change, but do you sense that there's an openness to those kind of arguments, or do you sense that, okay, June 1 is coming and that's kind of where we are?

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

Yes. I mean, Lore, thanks for the question. Net revenues per hectoliter did decline between fourth quarter and Q1. It is somewhat usual. I mean we have seen this at different levels in the past three years as you actually mentioned in your question. The reasons for it to happen are the same ones from last year. Actually, the State VAT tax it updates (39:50) in the beginning of the year, sort of a calendar, the seasonal promotional activities, mainly around Carnival.

In terms of – I guess you're trying to infer how do we (40:03) feel in terms of competitive landscape. We feel that people are under pressure for the most part, I mean either from us executing well and getting momentum towards the World Cup, which we're really excited about. And as you also wrote in your report, I mean this is the type of tax increase that is impacting everyone. So I actually think from a competitive standpoint, it's also a good momentum for us. We are going into a very strong quarter. We have everything going for us. You've got some tailwind from volume and share perspective. And I see people under pressure. So that doesn't change my view on the timing or anything.

In terms of expectation, after the increase – I guess after the increase of 4% in April, we did not expect another federal tax hike within 30 days. That's the sort of not expecting, because they put the first one. That said, it's fair to say that what was announced is consistent with the tax framework without any changes in terms of legislation or anything like this. So the fact is that they do update the reference-based price from time to time. It's usually in October. It's important to remember that last year's base (41:31) has been postponed by the government the time for the eventual update (41:35) was not set, although that actually (41:39) I guess after April, most of the people was expecting after the World Cup.

They're off course trying to address their own primary surplus target, their issues. We think at the end, you can get there through volume, and that usually helps investment, job creation and inflation. And we will, as an industry, continue to work on a dialogue with them, with the intent of showing once again that they can get to the same place or close to with a different mix, but I don't want to get into any speculation whether there is change or not. But what I can say is that we are always looking for a seat at the table to show this. There's no reason for saying no, because it was published or because of this or that, you will give up. We never give up.

We will be there day in, day out, the team, the industry, da da da, (42:37) to try to revert. It's always harder to revert it than to avoid. So that's why we're being very transparent in the sense, I don't know, (42:44) if this stays, we will put the price on. In terms of timing, better than last year; in terms of competitive pressure, better than last year. So I mean that's sort of where we stand on this.

Q - Lore Serra {BIO 20729753 <GO>}

Okay. That's helpful. And then I mean I understand that the soft drink business was in a different sort of cycle in terms of it didn't have such a tough first quarter 2013. But if you think about soft drinks versus beer at the consumer level, obviously, there's a big competitor in soft drinks but probably would act in a similar way, do you see any difficulty or more challenges in terms of the outlook there with the taxation you faced versus what you're seeing in beer?

A - João Mauricio Giffoni de Castro Neves

From a taxation standpoint, if you add up the increase in October 2012 with this one, they add up pretty much to the same number arithmetically with the mix being different. It was higher for soft drinks than beer in October 2012, and now it's higher for beer than it is for soft drink. In terms of consumer environment, I think it's the same with maybe soft drinks in the past couple of years suffering a bit more from the elasticity of that industry. So for the type of price increase, they have suffered more volumes than we – not we, but than beer, right. On top of what you say, the easy comps and this and that, we – at the same time, we've been outperforming the industry.

So the proposition from a commercial priority or brands, it is good. I mean everything that we've done behind Guaraná has been working well. Now we have some of those same things going on for the other brands. I mean the launch of Limonetto H2Oh! major success. Early results from the launch of Pepsi returnable, very good. Pepsi using some of those concepts of new splatter form (44:51) very good. Us, with maybe the best market share for a first quarter ever in a long time. So we're consistently rolling, gaining share.

Launch of Guaraná Antarctica continues to have growth. The activation of last year with Faustão and Neymar was great, will be the same or better with Felipão this year, continue to be the number one brand, consumer brand, in the number of fans in the Facebook. So I think we have a good top line momentum easing the pressure that the industry does feel, giving the elasticity and the different price increases that went through in the past two years. And when you look at the price tables, you will see that a lot of the regional brands are suffering also, very big increases. And that's why the A brands or the two biggest companies continue to sort of either maintain or gain share.

Q - Lore Serra {BIO 20729753 <GO>}

Okay. Thanks. And just lastly, I know you guys don't like to comment or give guidance on the tax rate, but do you see the first quarter tax rate as representative of what it might be for the full year?

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

Hi, Lore. Our effective tax rate in Q1 was broadly in line with last year. As you said, we don't provide the specific guidance on ETR, but as we disclosed in the press release, I think what's important to keep in mind is that we should continue to maximize our IOC. (46:30) Since it's the most efficient way to return excess cash to shareholders. And this has a clear impact in our effective tax rate and should be the main driver to explain improvement versus last year.

Although other lines, (46:45) which is also part of the effective tax rate, may vary or behave differently to last year. So for instance, some of the goodwill amortization we have, they are expiring. And some other of the tax benefits also should decrease. So I think what you saw in Q1 is consistent with what we have been talking about, and the driver that (47:12) should probably behave the same moving forward.

Q - Lore Serra {BIO 20729753 <GO>}

Thank you very much.

Operator

Our next question is Fernando Ferreira, Bank of America Merrill Lynch. Please go ahead.

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

Thanks, everyone. Thanks for the question. I had two questions, actually. First one, I appreciate your comments on the taxes. But I just wanted to understand, what do you think happens in October, are you expecting other increase to the multiplier?

A - João Mauricio Giffoni de Castro Neves

Well, Fernando, thanks for the question. But in accordance with current legislation, there is another increase of 2%, which is I guess one-twentieth of what's happening now for the so-called multiplier. That's pretty much what's in the legislation. There's no schedule in terms of price tables. So that's where things stand in terms of what is happening in the legislation.

We appreciate that government's looking for ways to improve their own primary results. But we'll continue to work on a dialogue with them with the intent of showing once again that tax revenues can grow the same way based on lower tax burden on the industry, enable greater volume growth. I mean we'll continue to be there, showing the numbers, showing the data, showing there is a different way to get there to impact whatever, this one, the next one, whatever it is, it's now part of one of the things we do for a living, right.

So I mean, what's there in the (48:50) 2%? What's going to happen? Can be the 2%, can be a schedule of reference tables, and for sure we'll be there to try to minimize whatever impact possible, given that we don't manage this line. (49:05) We have to invest strongly behind our brands, make the best World Cup possible, continue to improve our market share position and really execute as far as (49:17) the World Cup and mission affordability, the price premium – or the premium strategy overall with Bud, Stella, Original and Bohemia, which are really doing well, but with a lot, a lot to do and get to what I think is a deserved position for all of those brands.

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

Thanks, João. And then shifting out of Brazil, when we look at HILA-Ex, we have been observing very strong margin expansion in each and every quarter last year. And this quarter, you had flat margins relative to first quarter last year. So just wanted really an update here on where you are on your synergies plan and what can we expect for the balance of the year in terms of margins? Thank you.

A - João Mauricio Giffoni de Castro Neves

Yes. I mean we – I still think there is definitely room for margin expansion. From a synergy standpoint, the first phase of the announced synergies two years ago of DR have been achieved. So we're doing much better. There's some months or quarters where in beer, DR already have a sort of 50% margin. But the business there has soft drinks, has malt, has other things, there's no reason for this business not to have the types of margins that you see in Brazil.

You have to remember that HILA-Ex, you have Guatemala, you have Cuba also. So we have a collection of other countries where we have different strategies, right? I mean in Cuba, we know there's more synergies to be captured for sure. And then in Guatemala, there is – the strategy is gaining share on a very important manner. We tripled the share from a couple years ago. We tripled the volume from a couple years ago. We have just launched there Corona and Modelo Especial, which is actually doing great. They very quickly took about 10% of our volume. But it's a very competitive country. So if you were to look, the expansion in DR continues to be substantial but still away from where we want.

Guatemala, big investment especially given the launch of Corona, Modelo Especial and the big fight between Brava, our main brand and the two other brands of our competitor. And then Cuba, which is a new additional to HILA-Ex, which already is showing margin expansion but still a lot to do. So what you saw in this quarter is not a reflection of what we see going forward for the next couple of years.

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

Perfect. Thanks, João.

A - João Mauricio Giffoni de Castro Neves

Thank you very much.

Operator

Our next question is Antonio González, Credit Suisse. Please go ahead.

Q - Armando Perez {BIO 18956695 <GO>}

Hello, everyone. Thanks for the call. This is actually Armando Perez. My question is regarding the state taxes. If you could give us a sense of how have these increased in the last years and what's the current level? And following this question, what's the general environment of state taxes right now? And I guess what I want to ask is, is this update in reference prices changing anything in state taxes? Thanks.

A - João Mauricio Giffoni de Castro Neves

Yes. We have 27 states. The place is (52:50) pretty much set. There's eventual changes here and there, but there are no specific changes worth commenting. So they're based on the different legislations of the different states and they are mostly based, mostly, not all, but mostly based on price surveys. And that's it. So if there are impacts on price, then there is a catch-up between three months to once a year depending, again on the state, of catch-ups of price increases which are indirectly, if you want to relate it, but zero direct relation between reference price tables of federal tax and the state tax. That's pretty much it.

Q - Armando Perez {BIO 18956695 <GO>}

Ok. Thanks.

A - João Mauricio Giffoni de Castro Neves

Yeah. You're welcome.

Operator

Our next question is Jose Yordan, Deutsche Bank. Please go ahead.

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

Hi. Good morning, guys. Well, my first question was answered already, but I had another question on Canada. Because you mentioned a change in accounting methodology, deconsolidating some distribution companies. But I would think deconsolidating a lower margin – what's presumably a lower margin business would actually raise your margins in Canada. So any color you can give us, if it's appropriate in this call, about the accounting change in Canada. And just in general, what do you expect for the year in terms of revenue growth and profitability, given the addition of the Corona brands and these accounting changes? Mixing it all in, what's the final impact? Any color would be great on that.

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

Okay, Jose. Well, actually, we had this change in accounting method there on the distribution company. So that's why we've been disclosing it as a separate – let's say, we treat it as a scope (54:47) to give more clarity on the performance. And then as you said in your question, I mean the margin drop is not linked to this deconsolidation, as you mentioned, is a distribution business.

The margin drop is mainly driven by phasing off SG&A. We had a concentration of marketing/sales investment in Q1 that should be of course reported in the following quarter. So that is the main driver for the margin compression we saw there, not to mention the industry decline, right? I mean the weather was very tough. We had a later Easter. And despite this industry decline, I think it's important to say that while the (55:38) industry declined 3% broadly, our reported volumes declined only by 1.3%.

So as expected, to help improving our share in the market with the addition of Corona and Mexican brands into our portfolio. Of course, in Q1, it had just the beginning, as we said, but we are confident that for the remainder of the year, we continue to be excited with the opportunities that the Mexican brands bring to our execution. They're not only in terms of top line, but also in terms EBITDA perspective. So Q1 had a sort of a one-off component. As I said, given different timing of promotional calendar, sales and marketing expenses, but that should be reported in the following quarters.

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

Okay. But we should assume that your economics for the Corona business are better than your existing business overall in Canada? Or – I mean obviously it's a higher price, but it doesn't necessarily have to be a higher margin for you depending on what the arrangement is with Modelo.

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

No. The economics are definitely attractive, it's positioned in the high end segment, therefore, we have better pricing. More important, the growth potential is one of the best, if not the best we have, because it's a segment that is growing. The brands in there, (57:03) there's a very high presence. (57:04) Of course, we are investing up front to capture this full potential by focusing on improving distribution, improving execution, but we have no doubt that the economics are attractive. The (57:19) of course is done on marginalized base (57:22) like all other licenses we have. And we are confident it will be, as I said, accretive of course for top line but also for EBITDA bottom line, given the higher margin per hectoliter we have with the brand.

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

Great. Thanks a lot.

Operator

Our next question is Alex Robarts from Citi. Please go ahead.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thanks. Hi, everybody. I do want to go back to the Brazil SG&A, and there's two questions around that, if I may. I think the 18% growth here that we saw year-on-year in Brazil SG&A, the cash SG&A was a little surprising for us. And I guess the first question relates to this opportunity that I sense you're talking about, and you referred to it in your comments around the premium segment, okay. And it's very interesting to note Brazil's situation globally. The upside to grow the segment is measurable, and you talk about the double digit growth in that segment in the quarter.

And as we gauge the impact of that on revenue per hectoliter, that's pretty straightforward, but the question is really around the opportunity cost this year of building out this segment, World Cup and such. So how scalable are your current mainstream marketing and selling activities and programs to the premium segment? And you talk about the dedicated trade and sales team here. Are these incremental or are they being financed by perhaps lower expenses on mainstream marketing? If you could kind of help us understand how this might evolve, this piece of SG&A around the premium segment, that would be great.

A - João Mauricio Giffoni de Castro Neves

Okay. Hi, Alex. I appreciate the question. We have today a much better segmented sales force than we ever had. This is a process that started more than a couple years ago that every year, you tweak to make it better. So today, if you come to São Paulo and you go to an upscale restaurant or a trendy bar or a fancy disco, the mix is different. The attention that's needed is different. The sort of supervisor that you need is different. Sometimes the delivery truck could be different.

So it's not that you now multiply sales force, but you do have different dedication by having a much smarter segmentation than what you did in the past, so that you can provide a better service to the client, which you will, therefore, enhance the brand health indicator, and will provide you with the better sales volume perspective.

So the combination is very positive. Every time you make those changes from a logistics service level standpoint, it takes you some time to get this done. Usually, we do a pilot as we did in São Paulo capital, you see whether it makes sense, you see whether the NPV is there, whatever further investment that you need or the eventual cost of segmentation is more than paid off by the sales and by the brand health indicator, which was the case, and then you start rolling that out for the different urban centers, the main cities of Brazil, which is what we're doing, as we speak, after a very successful situation here – pilot here in São Paulo capital.

This is true for other situations such as the specific off trade, different sizes and different things, which I think will continue to put us in a better position. So for us to make the premium happen, you continue to have the right positioning for the brands, the right pricing for the branding (01:01:46) of premium brands need to be premium priced, and that's what we're doing, not necessarily all the competitors, but that's what we're doing. That's yielding very good results in terms of sales in a market (01:01:55). For you to get there, you need to have the backbone right and now we have the backbone right from a distribution standpoint, and with greater and better package. So all in all, I think this will continue to make the premium segment to grow faster than what was growing in the past and, of course, World Cup is again a very important moment to get this done.

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

And, Alex, just to go back to the first part of your question, I mean you mentioned about the SG&A increase, just to make sure I think we tried to put this clear also in the release and in the previous speech. I mean, it's fully consistent with the guidance we gave for the full year. So remain very confident about (01:02:41) delivering on our guidance and the double digit sort of growth we showed at 18%, which you mentioned was above your expectation, has to do with phasing, as I said, of sales and marketing, some up front (01:02:58) this year given the World Cup and significant (01:03:01) timing of bonus accrual. When you adjust for that which, by default, will be adjusted over the quarters, we are back to the guidance we gave before.

Q - Alexander Robarts {BIO 1499637 <GO>}

Thank you. No, I appreciate that clarification, Jamel. But just going back to the team. So if we get up to 10% – 9%, 10% of your volume in premium this year, compared to let's just assume 7% last year. The marketing spend on a per hectoliter basis, it's higher necessarily, right? It's not a zero-sum game. You've got to finance the buildout of the...

A - João Mauricio Giffoni de Castro Neves

Hello? Hello?

Q - Alexander Robarts {BIO 1499637 <GO>}

Yes. Can you hear me?

A - João Mauricio Giffoni de Castro Neves

No – yeah, you got cut. Now I can hear better.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay.

A - João Mauricio Giffoni de Castro Neves

Alex, just to finalize on the question. It's a net positive as I said. The SG&A increased, Jamel just explained on the quarter. And when you look forward, I mean, as I said, premium brands need to be premium priced in premium markets and premium business. (01:04:05) I mean at the end, that's what it is. It's not a zero-sum game, you cannot be earning less dollars or less reais on premium than you're doing mainstream. That's basically it. So I mean the strategy is the one that is a win-win. Win in the top line, win in the bottom line.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay, okay. I got it. Now listen – that's very helpful. And the last one is just, I was going to ask about the rest of the year and the trend of the SG&A, and it sounds like you guys are very much confident that you're going to hit the low double digit growth, which basically implies 9% it seems for the next three quarters. But then I guess, then I would just go to the tax question, which is that the last time we saw the reference table move was in October 2012, and obviously, there are some – you had a very interesting process there.

Could you share with us – I know you don't want to comment on timing and magnitude, but could you share with us some of the kind of lessons that you learned in terms of executing this type of price increase? I mean we've seen this happen with the sugary drinks in Mexico earlier this year, and what's gone on there. I mean is it safe to say that right now then, with this tax happening in June rather than October, you're going to focus more on the affordability and there's going to be a kind of increased attention to the pricing architecture. Any color of how you might think about going into the second half of the year as you push through the pricing on the taxes?

A - João Mauricio Giffoni de Castro Neves

Yes, Alex. As we said before, we want to stay very high level here just by saying that the strategy of – we'll continue to be passing on any tax increase, that has not changed. And that for competitive reasons, we will never get into the detail of the timing or amount of this price increase. I said it's (01:06:09) always to manage the optimum balance between price, volume and mix and of course addressing the point that you just mentioned, to keep growing our top line in a profitable way. Sorry, I will not be getting into more details, but that's what we can say at this point.

Q - Alexander Robarts {BIO 1499637 <GO>}

Okay. Fair enough.

A - João Mauricio Giffoni de Castro Neves

Thank you.

Operator

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

Q - Luca Cipiccia {BIO 6914452 <GO>}

Hi. Thank you. Good afternoon. Thank you also for taking my question. Just a couple of follow-ups, first again on the taxes. As you reminded the change that we saw last week was unexpected but very much in line with the framework that was in place. So if we use that as a backdrop, there's another adjustment in the multiplier that is scheduled for October this year. So my question is, shouldn't the working assumption be that this adjustment will happen as well? And otherwise, isn't it just setting up for disappointment? My point being the difference between what was expected was largely due to the fact that the government last year didn't make the changes that were scheduled. So that would be the – just the first question, if you could comment on that.

And secondly, just quickly related to this, if we assume that beer prices will simply keep going up in line with this planned adjustments, are you expecting somewhat of a change in market share dynamics towards, even assuming that the premium will continue to grow, but somewhat more affordable brand? Are you willing to take more market share losses if we start seeing consumers, for instance, in mainstream trading down maybe to some of your competitors? How would you see that play out vis-à-vis market share and not only pricing? Thank you.

A - João Mauricio Giffoni de Castro Neves

Yeah. Yeah, appreciate the question. Starting with the second part of your question, we will not be accepting any share losses. Our stated desired range continues to be the same, the 67% to 69%. But we want to be in the range in a profitable manner. We've been able to do this throughout the last 24 years since we put together the company – or last 14 years, if you want, since Ambev was created. So being able to manage market share at a profitable level. I believe we have everything going on for us to continue to do that, right, so because we want to be there in a profitable manner, that's why we have to have the – I mean the price policy was desire to being in line with the inflation because we find that to be the sweet spot for us and for consumers.

When there is a pricing – when there is a tax increase, we have to manage this in whatever sort of – or timing to maintain this balance, and we continue to do so. I think when you look at research for the next 10 years, the population will continue to earn more than what they were earning before. So in the past 10 years maybe people earn BRL 100 billion more than they earned before. When you add up 10 years projection is that people will go up another BRL 100 billion . But people, because they already went from B to C, and now they're going from C to C plus or B minus, they have even more, they are in a better situation, they don't want to come back to a lower priced brand. So I actually think the portfolio going forward that we have today is the best we ever had. I'm very confident with the portfolio, be it from a value or value plus, a mainstream minus, a mainstream plus, or a premium, or a super premium.

But having said that, we'll make the portfolio even better, right? Either by working better with the things I just said, either by continuing to work with innovation. So we have different things such as a liquid, best liquid everywhere is Brahma 0.0%, five months leader the segment, 40-plus percent share. The 300 ml addressing as a pack, still affordable, there's other things that could come from CSD & NANC, returnable on Pepsi, Limonetto; a lot to do. And I think with the demographics, that actually will help us. And there will be hiccups along the way. I mean we are an emerging market, there are things we have to manage, we'll be close – manage it closely. But I think portfolio is better, better to face that type of situation even knowing what's going to happen.

To the first part of your question, I think whatever happens in October will be much smaller in any way, shape or form than what's happening now. That's I think something – unless there's any changes to legislation which we, of course, do not expect. So I think whatever was big that was out there, it's what was now announced last week.

Q - Luca Cipiccia {BIO 6914452 <GO>}

Okay, thank you. Very clear. Thank you very much.

A - João Mauricio Giffoni de Castro Neves

Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Nelson Jamel, for any closing remarks.

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

Well, thank you, Maureen, and thank you all for joining us today and we look forward to speaking to you again on July 31. Thank you. Bye bye.

A - João Mauricio Giffoni de Castro Neves

Be there. (01:11:46)

Operator

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