Day 1 Q&A

Shaun Fullalove, Global VP Investor Relations
We're going to end this portion of the day with a Q&A panel session with our global chiefs that have just presented. So give us a few moments here just to set up the stage with some additional chairs.

So if I could ask Michel, Fernando, Tadeu, David, Marcel, Nick, Lucas and Ezgi to slowly join me on stage as they start to put the seats up. A couple of notes on the logistics for the Q&A. We're going to start by taking a couple of questions from here in the room and then may take a couple from those are on the webcast stream if I can figure out how the technology works. We have some mics around the room, so if you would like to ask a question, then please raise your hand. We'll get our team to get a mic across to you. Try and stick to one question just so we can give as many people an opportunity to ask something. So we have 45 minutes from now, so give us 2 seconds just to get situated here and then we'll kick it off. So I think we're all here, if anyone would like to take our first question from the room, please raise your hand.

Ed Mundy, Jefferies
Thanks for the I did great at Mondi Jefferies. Thanks for the presentations. I want to come back to I think it was Korea where you mentioned OBPPC, and I think that's the only time that's been mentioned throughout today. Clearly, there's a lot going on within the broader business. But could you perhaps talk about where you are on that journey? Yeah, the soft drinks bottlers have clearly spent the last decade or so getting very advanced on that so is it a continued opportunity to unlock further value over the medium term.

Marcel Marcondes, CMO
I can take that one. OBPPC is one of the key elements we have in two of the growth levers we spoke about today. First one is on participation, because this has proven to be a very effective lever on participation, because, of course, it offers options in different price points for different occasions. So it helps bring in people into the category. And then we mentioned that in Korea as well, because it's another part of the core superiority framework we have. So especially for big brands, it's proven also that the more you bet behind OBPPC, the more you keep these brands up to speed. On connectivity for consumers in different occasions. It's all about having our brands fit for the occasion.

So it's been working very well. It was one of the key elements behind the success of Cass. If I'm being fair as well, I would say that we've been getting some very good early results and they'll be picked as well with our premium brands because we've been breaking some barriers for expansion on premium brands by offering more offerings of our premium proposition so that they can go further.

So simply put across the portfolio OBPPC is one of the key elements that permeate the growth levers.

Michel Doukeris, CEO
To complement, I think that the question is how far and I think it's fair to say that on a scale 1 to 10, when you benchmark, for example, with soft drinks companies which are very progressed on that scale, we are at a four out of ten. So it's like a 3 to 5 years journey depending on the country.

And so far good mapping of opportunities. It's good tie up onto the strategy. But in terms of execution, we are in the early stages, like four out of ten.

Ricardo Tadeu, Chief Growth Officer

And if I were to complement, we also added some elements to OBPPC, which is also our ability to develop occasions. So I think that when we rate ourselves four out of ten is when we think of, you know, the opportunities that we have ahead. But I think that these four, they're very meaningful and give us lots of opportunities in the future.

So for example, if you think of the example of the Litrao in Brazil as a way to reignite return of RGB's and have a great in-home package that could also be returnable and that you could leverage on there. I think the great case of like using a package that could be both affordable but also convenient in a way that only we can do.

I think there's much more to come. But I think that's the beauty of it is we can today identify occasions that we want to either create or incentivize. We can identify the channels and sometimes we can create the channel ourselves as well. And then we design for that. So I mean, much more to come, but I think we've made good progress in the last few years.

Shaun Fullalove, Global VP Investor Relations
Okay. Thanks for that one. And staying in the room, Andrea from BoA on table seven.

Andrea Pistacchi, Bank of America
Yes, it's Andrew Pistacchi from Bank of America. Looking across your developing markets, there's been consistent and strong top line growth in almost all the markets. But when you look at EBITDA growth or conversion of this top line into EBITDA, there's some differences like Mexico and Colombia really stand out as having delivered also strong growth. But in other markets, I think like Peru, Ecuador in part Brazil, the profit growth so far has been a bit more subdued.

What potential differences in cost inflation that you faced in these markets. Are there any other reasons that explain this difference. Maybe capability rollouts or things like that? And also going forward, should we expect in these high margin markets like Peru, Colombia, an acceleration of EBITDA growth of conversion of top line into profit.

Michel Doukeris, CEO
Yeah, I can take that. I think that despite of us using one hedge policy globally and centralized supply chain in terms of procurement, the reality is that all of this cost escalation, they impact markets differently.

The commodity was coupled with FX. And what we are seeing, for example, today is that the markets that early got impacts like Brazil, for example, they are the first markets that are getting out while some of the markets they got a more delayed impact and therefore they need another one or two quarters to move in the right direction.

But as Fernando showed during his presentation. A lot of what we saw in terms margin compression was really commodity and FX based. And then as these effects subside, then we start to see the margin come back. The margins should come back, even though each market will come a little bit different depending on the FX and commodity combination on that specific market.

But there is no fundamental difference between Peru or Mexico, or Colombia. But we know that Colombia, for example, has a much higher internal inflation caused by imports and therefore is taking longer to get away from there.

Shaun Fullalove, Global VP Investor Relations
Thanks, Andrea. Brett from Consumer Edge.

Brett Cooper, Consumer Edge
On the benefits of digital in really treating those as brands. So I would love to hear how you think about those in the competitive environment. So people trying to get in there. Given all of the advantages you've spoken about and how you retain the competitive advantages that you have today?

Ricardo Tadeu, Chief Growth Officer
Yeah, I think that the best part to being in our position today is because we are developing the technology. Everything is proprietary and the whole tools I think are great advantages not only having our own platforms but also creating every future of this platform with like a clear purpose and therefore and, and after having implemented this platform in 25 countries, we know that it takes a much greater commitment from the organizations to actually digitize your business in a meaningful way, a way that actually adds value in all elements.

And this expertise is something that we're always building on right, in terms of personalization, the type of skill sets that we expect now from our commercial teams is very different than what we expected to three years ago. We had to come make a very important work of reeducation of all levels of the commercial organization. From our marketeers that now they have access to this pool of information from consumers.

And now they understand much more about when the brands are being consumed. The time, the occasion, the objective to sell more every day. And now they have a completely different person, this task purchase. So we believe that we will be leading the way on how to really utilize technology, combining consumer insights, customer insights, you know, portfolio management, resource allocation.

And we think that when it comes to customer and consumer, what our data has been saying is that the more we create benefits to them, the more they've been rewarding us with their satisfaction and their preference. So far it has been a great win win journey.

Shaun Fullalove, Global VP Investor Relations
I'm going to take one from the webcast, then we'll go back to the room, if that's okay. Ezgi this is one for you actually, when you think about the trade offs between investing in sustainability versus the financial performance of the company, how do you think about that internally in terms of the pros and cons?

Ezgi Barcenas, Chief Sustainability Officer
Thank you for the question. So as I hope it was clear through our presentations with Fernando and I, the way we think about sustainability is really it's an enabler of our business strategy. So for us, this is not about a sustainability strategy, but about building a business strategy that is more sustainable. And I think we're quite fortunate that we work for a category that is so inherently sustainable and local and inclusive that it really gives us that ability to be able to make those decisions fairly quickly and very well aligned within the business and where we should be investing.

As we think of financial KPIs or sustainability KPIs, of course there will always be trade offs. Of course we will always look for those that are value accretive and invest in them and look to scale to technologies with proven results. But we also always look for ways to bring in new technologies and new innovations into the business where maybe the business case may not be as clear just yet, but we need to be testing the technology and building the case study within the business.

And we do that through our 100 plus accelerator program, for example. I don't know, Fernando, if you wanted to also comment on how we approach these initiatives within the business.

FernandoTennenbaum, CFO
That I think are probably what you said, that sustainability is good for business is a very fair statement. I know that if compared to different industry, they'll give different answers. But for us, a more sustainable business is a more efficient business. And I think as you gave a lot of examples of those. So whenever we are going to design a new project, we look at the financial angle and you look at the sustainable angle and then we see out of this almost like a matrix or chart, which is the one that gives both the best financial return and sustainable return.

And this is an exercise because as I said, there is always innovation, there is always new technologies that come into play that's changing the equation. But it's always a very easy discussion because all of us wants to have our business be more efficient. And if sustainable is more efficient, we are all for it.

Shaun Fullalove, Global VP Investor Relations
Okay, Thanks, Fernando. We'll come back to the room. I think Laurence had a question. Laurence from Barclays.

Laurence Whyatt, Barclays
Thanks, Laurence Whyatt from Barclays. On your marketing piece, a lot of the adverts you played to us today were sort of drawing the heartstrings there on a very emotive type advertising. What place is there for showing off the quality of the products you're producing, whether that's the ingredients or the brewing methods? I think historically there have been some of us that are focused on that side of the products.

Marcel Marcondes, CMO
That's vital for the category and for the work we have. Like if you remember from the reviews we saw today on Corona, this is a key part of the Corona toolkit. There is one formula where we talk about the product. We spoke about the lime ritual a couple of times. When we spoke about Corona Cero, we showed how much of the product is differentiated and how much it's winning awards in terms of being the high quality non alc. For example, when we spoke about core superior already it was almost all about the product and the Cass example is exactly about how to revamp packaging and liquid

The brewing process exactly to maintain its superiority versus the competition or that gets translated into communication as well so that consumers can be aware of it and appreciate the key attributes and the key differentiation points of our products. And this is when we apply the effective creativity model. So in case we didn't show as many examples as we could because of time restrictions, rest assured, this is a key element in our process.

Michel Doukeris, CEO
I think that the core superiority framework is product and packaging, which starts with product, right? And then goes on to communication. And if you think about the digital products, Lucas started by saying that the value proposition [of Ze Delivery] is fast delivery, 30 minutes, cold beer with prices at off-trade rates. So these are the core quality ingredients of the digital product.

And it was very quick on the spots that he was showing, but the spots are all about that. The fast delivery of the motorbike as you would open up the to the box, you could see the ice, the dry ice coming out to mention and to reassure people that's cold and course because it's integrated with Modelorama people know what the price that they're paying for.

So the quality attributes of the products, both in their physical products, and also in the digital products are a key component of this product superiority framework.

Shaun Fullalove, Global VP Investor Relations
Going to Mitch at the back from Deutsche Bank.

Mitch Collett, Deutsche Bank
It's Mitch Collett from Deutsche Bank.

Fernando, you talked about the margin erosion you've faced since 2019. At the same time, we've heard a lot about the efficiency benefits you get from BEES, which is now quite fully rolled out across your global footprint. Is it conceivable that you could get back to your previous level of profitability in the near future? Does it require input costs to normalize more? And given the benefits you've had from BEES, is it possible that potentially. with a more predictable level of input cost inflation and effects that you could get to a higher level of profitability than you've had in the past?

FernandoTennenbaum, CFO
Thanks Mitch. It's a very good question. It's worth repeating, that that the margin decline that we had is not structural. It was mostly driven by all these cost pressures. And in the meantime, we keep working on driving efficiencies in the business. If you look at the overhead side, we had efficiencies that if you look on the this presentation, there are a lot of different efficiencies both on top line as well with the cost on the sales cost to serve.

So definitely we see a lot of opportunities. It's almost like a almost like a competition because every year we have the discipline of growing pricing line of inflation. And once costs go to a more normal level, we continue to maintain this discipline.

So at the end of the day, the margin answer is a combination of how much time you need to keep passing on inflation and at what speed commodity effects goes to a more historically normal level. Probably the right answer is somewhere in the middle as you keep maintaining the pricing discipline and commodities getting more normal, then you start to recover in the margin.

Shaun Fullalove, Global VP Investor Relations
So Chris Pitcher from Redburn, and then we'll go to Trevor after that.

Chris Pitcher, Redburn
Thank you very much. A lot of what you've been talking about today, about growing the category, if we look at the U.S. and I'm very mindful everything that's going on in the United States, but you highlighted, obviously, what you've done with Michelob Ultra, you'd highlighted Beyond Beer. Could you dig a little bit deeper into how everything we've seen today, absent the Bud Light situation, could help get that category back into growth.

Michel Doukeris, CEO
Yeah so if you look at the U.S., I think that we discussed many times before these different phases of the U.S. and I think that what we need to use as a starting point is how developed the market already is in the US. So it's a different conversation when you think about an African country, the market that we have in Mexico, for example, and the market in the U.S. but the market in the U.S. was expanding volumes until 2010.

You had this big disruption in 2010, we have here the liquids coming to the industry and a lot of variety, but mostly less sessionable. We've been seeing acceleration on dollar growth. So it's a very healthy market in terms of dollar growth.

So 2021 growing, 22 decline and in 23 we saw a little bit of everything a quarter of growth, a quarter of decline. And when you add this beyond beer space, which is not 100% beer, but it plays very similar on the consumer side, the market is growing volumetrically and in revenues is accelerating

So, if you remember the presentation when Marcel was covering, the more you go to more developed markets, the bigger the role of Beyond Beer is. Because beyond beer is a manifestation of a more developed market. So I believe that the US market will continue to be very resilient in volume, continue to grow in dollars, and in this beer plus beyond beer space, there will be acceleration as the beyond beer brands get more investment and more consumer participation.

So the model remains the same. The market is much more developed. So the per capita is higher. And the beyond beer now plays a much important role on the development of volume.

Chris Pitcher, Redburn
So could you just give a bit more color, because you talked about Bees globally, about how Bees works in the US to give you competitive advantage with obviously the different market structure.

Michel Doukeris, CEO
We always talk about Bees as if you have three waves of implementation and this links a little bit with the question that you had before on what makes Bees move faster than other apps, So what we call somehow like wave one is where we have the route to market to the final customer.

And this is the case, for example, in Mexico and is the case in Brazil and is the case in many of other markets. This wave of implementation is a much faster one. And simply put, because we own the distribution operations, so we digitalize converting people in this queue very fast. The second wave Nick touched upon that today is what we call Bees Link. Many of these very large retail customers, think about Walmart for example, they are digital for many, many years, through what they call EDI. This electronic transaction and data interchange. And I use a way to compare. I hope that people never get like upset with me on that. But I almost think that is the idea was created 20, 25 years ago is almost like a landline telephone.

You have the communication, but you need to dial in. It depends on this physical spot in which you are calling from and receiving the call and what we do with this, because it's modern technology and Bees link follows the same idea as our mobile phone. So has a different microprocessor, more intelligence, more automation of data and Bees Link is the one that we are rolling out to this medium and big off trade retailers that for us, depending on the country, represent 20, 25% of the volume. In the third wave we need to connect to the wholesaler systems that we have in many different countries.

Think China, Korea, the US, and this is a more wholesaler by wholesaler rollout. So every time that you need to integrate, you need to integrate that specific ERP.

In the case of China, because ten years ago we built the infrastructure for the wholesalers in a very similar three tier system. But because the ERP is more common, the rollout of BES in China is being very quick. So today what is the number.

Nick Caton, Chief B2B Officer
As of June it is 45%.

Michel Doukeris, CEO
So today 45% of the revenues in China are already [through BEES]. The US is a more wholesaler by wholesaler, state by state, and we get moving because of the state laws in the U.S., you also have an extra layer of customization in what you can use or not, but is evolving. It's working. The fundamental insights from buyers, they remain the same.

As a matter of fact, a lot of the B2B, when we tested, we tested Brazil, Argentina and the US was all the same. It sells more, is more affordable for us to reach the market and customers get an extra layer of satisfaction because they are in control of the transaction. And the data that we extract from that is very powerful data.

So China wholesaler system moving faster, South Korea is moving as well and in the US is more operator by operator, state by state as you go moving through the country.

Trevor Stirling, Bernstein
Thanks everyone. Trevor Stirling from Bernstein. Only one for Marcel. Marcel, when you're laying out the strategy in particular when it came to beer, you had your dimension for your for global brands based on the size of the group and the energy of the occasion. And that seemed to fit fairly neatly. As you were discussing, beyond beer, what seems to be driving Cutwater in the US is very different from Brutal fruit in South Africa. Again, it seems to be much more country specific. The role of global brands seems to be much more limited. Is that a fair observation?

Marcel Marcondes, CMO
Sort of. Thanks for the question. I think it's a it's a very good debate. I wish we had a lot of time to talk about it. This is the beginning of the whole strategic foundation. I think what we've seen in beyond beer is that there is actually a good pattern in terms of how this industry evolves. So if you remember those segments, usually it develops from left to right, first pillar being party mixes, which is all about people looking after sweet propositions for high energy occasions.

This is usually the first manifestation of beyond beer that we see pretty much everywhere. The second one is familiar flavors, flavorful and refreshing. The key insight here for beyond beer is that it starts by giving consumers familiar flavors. Flavors they grew up with that are usually sweeter but with alcohol and ready to drink. So this is why in this pillar you see the hard teas, the hard lemonades, so on and so forth.

Then as the category continues to improve in Premiumness, we see this third pillar, which is which we call light and refreshing, which is the same rationale of the familiar flavors with alcohol. So as we acquire capabilities of having ready to drink cocktails for real, I mean, it's not about having a liquid that has the flavor of a mai tai, it's the real mai tai ready to drink in a can.

As this becomes available, then the industry is evolving to a ready to drink cocktails. So we see a good pattern evolve from left to right following those four segments pretty much everywhere. What varies is how often people access those products because it takes time for that to develop because people need to be more exposed to different profiles of taste.

So simply put, when you compare that segmentation model with the beer segmentation model, the beyond beer is to pretty much focus on product characteristics. Whereas for beer, because it's much larger, much more developed, we are bringing the human component on the energy level and the consumption location based on group size.

Michel Doukeris, CEO
So if I can just complement, we think that this is fair to say that the development stage of each market also gives you some clues on the sources of volume from competition. So while in the US you see Cutwater, which is the manifestation of this more developed cocktail, which is very present in the overall industry in different shapes and forms.

These cocktails are less present in developing markets and even less present in emerging markets. But if you go to South Africa to get the example, the cider and wine industry is quite developed is an alcohol that's present in the market and therefore brutal fruit, which is the second in the development from familiar flavor to the refreshing is the one that has more ability to source volume from the existing industry.

And in this case we do have in South Africa, as the industry continues to develop, other manifestations. So we have a gin and tonic ready to drink. Black Crown is the name which we are seeding and growing in South Africa because this is the light and refreshing next manifestation in the industry. If the industry continues to develop at one point Cutwater can make it.

But in the U.S., because the industry already remove it from to the familiar flavor to a very evolved industry in terms of cocktails, the larger size of the prize, what we are focusing on is Cutwater. But we had in the past, for example, familiar flavors. They're lighter, refreshing. Everybody saw Celsius happen in the U.S. Now Nutrl is a big bet into this premium seltzer, which is real vodka plus juice.

So the more developed the market is, the more you can cover all four spaces, the more developed the market is, the more the size of the prize is in, the more complex segment. And of course, in the early stage markets, we started seeding from what is more relevant in the initial stage of each market for beyond beer.

Olivier Nicolai, Goldman Sachs
Yes, thank you, Olivier Nicolai, Goldman Sachs. Just one question you mentioned earlier nonalcoholic beer and obviously we've seen good traction on this category in Europe. How big that category could become. And do you see upside outside of Europe? Do you see a potential for this in the U.S., for instance, where historically the focus has been much more on carbs and calories and not really on the alcohol content?

Marcel Marcondes, CMO
We see still a big variance in terms of size and growth rates. So in the U.S. this industry now accounts for more or less 1% of the total industry. In countries in Europe, it's much higher than that. If you go to Spain, it's huge, right? So this is why we believe that there is a delta that over time the countries that are still low will keep growing.

We are optimistic with the growth of non-alc, in the next coming years because of the delta and because it also connects with consumer trends. So we see the tendency of moderation and all that getting manifested in in multiple markets. So when you see consumer trends, it all leads us to believe that this is going to continue to grow outside of Europe.

Michel Doukeris, CEO
Maybe we can just complement on the question as well. On the first part, it is global, so it's growing. Brazil is growing. The U.S. is growing, across Europe even in the markets that are already big. It's still growing. Germany, Belgium and most recently we've been seeing a lot of growth in the Asian countries. Two manifestations, one that is zero alcohol and one that is zero sugar, which is a very interesting as well.

So it continues to grow if you look to the benchmarks. Right. So Marcel was mentioning that there is this 1% in the U.S. that is 4% in Belgium, that is 12% in Spain. So one can say that if everybody else would follow Spain is 10%. But one very interesting thing I was mentioning here, I'm not sure if Brian still in the room, but Brian was presenting the case and there was the other day in France, and we have Corona Cero in France as well.

And I was just walking through the city, going from one meeting to the other meeting was the Deutsche Bank conference, but when I walk in the street, I don't look forward, I always look to the sides because I'm looking at the tables. There is only one aisle that I walk and all the rest someone else is shopping for me. So it was incredible to see the amount of people drinking during lunch. Corona Cero. And I don't think that these people usually drink, be it at lunch. I think that the drink order things and a lot of the data that we see in Europe, especially coming up, but also in Canada, there is some very interesting data of substitution for other nonalcoholic beverages in some occasions that are nonalcoholic occasions such as lunch, which Brian was showing.

The number two occasion [for non-alc beer] in the UK is post-workout because it's refreshing, is very low calorie. You replenish some carbohydrates, some minerals, so much so that in Germany, for example, people talk a lot about the use of isotonic characteristics of the non-alcohol beer.

So I think that there is this 10% threshold within the beer category, but there is a very interesting adjacent opportunity for occasions that are nontraditional alcoholic occasions, and we've been seeing some very interesting substitution in these occasions. The most relevant to me that I would be seeing is the one that is leading the non-alcohol in the U.S. is post-workout, especially if it is outdoor workouts.

Shaun Fullalove, Global VP Investor Relations
Fernando one for you from the webcast here. So the question is, given the reinvestment in the CapEx priorities that you went through earlier, how should we think about the pace of deleveraging towards the three times level and our willingness to use cash to accelerate the deleveraging going forward?

Fernando Tennenbaum, CFO
I think the framework for dynamic capital allocation is very clear and the goal is not to deleverage. The goal is not to pay out the dividend. The goal is to maximize value. What is non-negotiable and has been non-negotiable throughout all the years is the investment behind our business. We showed the amount of both CapEx and sales and marketing investment even in ups and downs, covid and all that and we keep investing because it's a very good business. Then if the remaining of the cash available, then you need to dynamic allocate between the priorities and of course when we finished 2018 that 4.8 times net debt to EBITA. Then of course all the resources go only to deleveraging because that makes more sense as you continue to make progress.

We have a very good business, generates a lot of cash. As you start gravitating towards three times, you start to have more flexibility. So the best example is the dividend increase. It's from a smaller base but is a 50% dividend increase. So that showed that we have more flexibility. I continue to see going forward. We should have some debt pay down.

I feel that's probably one of the lessons learned that up until 2019, we are trying to [deleverage] by growing EBITDA only. But there must be a debt paydown component so we should be doing some of that. But we have more flexibility to do other things and I'm confident on the progress we're making.

I think our capital structure allows a lot of flexibility given the way the debt maturity profile was structured. We are not giving a timeframe, but we're definitely moving and definitely have more flexibility than we had, let's say a year ago.

Shaun Fullalove, Global VP Investor Relations
Okay. Thanks for that. And we'll come back to the room. Simon Hales, back there.

Simon Hales, Citi
Yeah, thanks. It's Simon Hales of Citi. I had a question about your midterm guidance, if I can. You've highlighted in one of the presentations how you think that. I think the global beer value category is going to grow at about 6% over the medium term. Obviously, in the presentations today,

you've highlighted all the tools you have in your business that hopefully will allow you to continue to grow ahead of the category. And then I think, Fernando, in the Q&A, you've just sort of said that you expect there's no reason over time your margins won't recover towards where they were pre the COGS inflation we've seen. If I put all those building blocks together, it seems to me that you're going to be really growing at the very upper end of your 4 to 8 or even above it over the next few years. What am I missing in that analysis?

Fernando Tennenbaum, CFO
Every time that we talk about the outlook, the reason why we decided to provide a medium term outlook is because we had a business model that was much more inorganic focused. And the moment that you move that to a business model that is organic [growth focused], the investments that are unique to the business are very important.

You can see the magnitude of the investments that we made. And for us, the whole idea of giving the medium term outlook is to give confidence that despite moving to a more organic business model and making investments, the organic growth of the business would be able to deliver a very robust financial performance. That was the main reason for that.

Then, of course, every year is going to be different. Every year, every quarter is going to be different. If you see the different things that we have and we have like a conflict, we had like a shut down with some of our regions. We had a lot of plusses and minuses.

The outlook is much more to give a view and, a confidence that we will be able to grow organically then to make sure that this year is going to be these, that year is going to be that because every year is going to be different.

Shaun Fullalove, Global VP Investor Relations
We have maybe time for one or two more. Vivien...

Vivien Azer, TD Cowen
Hi. Thank you. Vivien Azer, TD Cowan. I was hoping to ask about your philosophy about marketing investment as it relates to your aspiration to continue to grow the beer category and how you think about share of voice across total beverage alcohol. Because as I think about some of the spirits companies that you're competing against there, A&P spend as a percentage of sales is sometimes higher than yours. So how much of a consideration is that? Thank you.

Michel Doukeris, CEO
I can maybe kick us off here and then Marcel feel free to complement. Basically we believe that part of our growth and a lot of what we've been building is based on having strong brands. And two years ago, we start calling these leading brands the mega brands, right, Because we believe on a more efficient growth coming from brands that have great consumer power.

Therefore, they command and continue to command a premium price and the benefits of scale that we get of these brands in terms of production. And while we use a lot of benchmarks and my team is going to have a lot of fun here because they are tired of me talking about this today, Today Marcel was hugging me and saying that only this week is the 50th time that you have given me the same feedback.

Why do I believe a lot in ratios and comparing benchmark across companies? None of us should ever manage the business based on ratios right. And let me use, for example, sales and marketing as an example. If we use sales and marketing as a ratio of net revenue for a market where we do direct distribution, then that's revenues much higher and there is a lot of cost of distribution underneath.

If you go to a market where the distribution is through wholesalers, so then you pay on that. That's a revenue, all the distribution cost and you have the net and that's revenue. Therefore, having five in one and ten in the other means absolutely the same thing. So I like a lot to check the ratio versus revenue as a comparable I like even more versus the contribution margin because then you already offset all these differences.

But the most important thing is what is the money that you need for that brand to be well activated and delivering on that job to be done. And some brands, because they are already bigger and they have more salience and they are more consolidated, then you need a good amount of money, but a smaller ratio versus others.

Some brands, because you're building them, you're going to have a very high ratio as you build in your betting on the future scale. And I can use the same example, just get two of our markets [and compare] them. [In China], the majority of all business is in premium. So the ratios that we have in China versus a hard liquor company are very similar. But if you go to Colombia, where the majority of our business is in core and we have very large scale, then our ratios are very different from premium spirits, but they're going to be closer to hard liquor in developing countries.

So I love the ratios, but I don't attach myself to them. I think more about what we need to do to grow the brand and then the ratio is a consequence of that and I think that one thing that was in is being very transformational for us. And I hope that this is coming across to you is the more we digitize our business, the better the insights get, the better the resource allocation becomes, the more efficient the growth is.

So I would not be surprised if we continue to grow brand power, continue to scale mega brands and continue to have a better ratio than other categories because our level of sophistication in terms of digitalization and then insights grows with time.

Marcel Marcondes, CMO
Okay. So I think on top of that, I would just put some more detail on it. I think that the big aha that we hope you guys saw is that we are building our own media platforms. Right. So in the past when we started digitizing, you know, our media interactions of consumers, we started at some point draftline to create our own content so that our it made this much more efficient.

And now we for them thought that we can reach the consumers directly without an investment that actually can be seen necessarily externally. So for example, the campaigns that you guys saw on Corona that were extremely effective, very high awareness and were targeted to consumers that had high likelihood of being interested in the brand.

So consumers offset the same way that we don't send all the Brahma, you know, soccer activations for all their consumers. So we identified the passion points, we identify the platforms, you know, the consumer behavior, and then we do all that. And basically the cost is minimal. And nobody can see that because the platform belongs to us. So on top of all the analytics, the data science and the greater efficiency in allocating the resource is the fact that we have a direct channel today with consumer and customer that allows us to increase our ROI, our ability to invest behind our brands in occasions without being that visible to the outside world.

Ricardo Tadeu, Chief Growth Officer
And even when we don't use our own channels as a media, the fact that we have all that first party data coming from BEES in DTC, I still believe that people still underestimate the difference that it

makes for us to know who buys our products when, why and how, so that we can drive personalization and scale in our content.

And this is why we have draftLine present in almost 15 markets already doing it in-house. So the whole machine operates in a totally different way versus used to be before.

Michel Doukeris, CEO
And I want to emphasize what Tadeu was saying. Maybe, for example, I think that everybody here or most of us use Amazon, right? To me, the example or real example in your world of what I was saying, when you think about Amazon, I don't even know the number, but I would assume that they have like 300,000 SKUs or even a million SKUs, but magically they always show you the white sneakers that you want to buy right?

Or that blue shirt that you know that you need every season because it's the one that goes well with the folded jackets that you have. So at the end of the day, the propensity models and the algorithms, they help us. The more this base of data grows for us to penetrate exactly that moment, that consumer where corona has more chances to win or that Brahma football activation that gets delivered to reach the all time high.

So the models they learn with data and the propensity helps in efficiency because at the end of the day you have one discount for a consumer that has a likelihood that is very high to buy your product, and so is very, very precise and was at the end of the day the biggest [benefit] behind this whole digitalization and is something that is still growing because there is much more that we need to do in this area.

Shaun Fullalove, Global VP Investor Relations
So we are well past the 45 minute mark. I think for today we'll end it there. We have another 45 minutes for Q&A tomorrow. I know we didn't get to everyone in the webcast or in the room, but we'll make sure to prioritize you tomorrow. So thanks to everyone for their participation.