AmBev 1Q03 Results – Conference Call Transcript
Moderator: Tobias Stingelin
May 12, 2003
11:00 a.m. EST

OPERATOR: Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the AmBev conference call to discuss the earning results for the first quarter of 2003.

We inform that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a question-and-answer period. At that time, further instructions will be given.

Should any participant need assistance during this conference, please press star, zero, for an operator.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of AmBev's management and on information currently available to the company.

Forward-looking statements 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. The future results and shareholder values of AmBev may differ materially from those expressed and or suggested by these forward-looking statements.

Now I'll turn the conference over to Mr. Marcel Telles, Co-Chairman of the Board of Directors. Please Mr. Telles, you may begin your conference.

MARCEL TELLES -- CO-CHAIRMAN -- AMBEV:

Thank you very much, and good morning everyone. Today I have with me on the call from our management team Luiz Fernando, Juan, Brito, Felipe and, from AmBev's IR team, Tobias and Alexandre.

We are reporting, once again, double-digit EBITDA growth, 25 percent year on year, despite the challenging environment. The depreciation of the currency exceeded 45 percent year on year with a natural negative impact on our dollar linked and variable costs.

Inflation during the period was close to 15 percent, pressuring some of our local currency costs, and, more recently, we also witnessed an increase in taxes. We believe that in light of these factors, our performance is evidence again that we are on the right track by sticking to AmBev's long-term strategy.

During the site visit last March, I believe most of you had a chance to develop a good understanding regarding our proposals for delivering sustainable growth during the coming years. That said, I'm pleased to see that we are progressing well on our strategy.

For instance, during the quarter, we advanced significantly in: improving revenue management by shifting our mix towards higher contribution margin products – and Luiz Fernando and Juan will elaborate more on that; maximizing distribution and execution efficiency, which is of paramount importance to dominate the point of sale; and, improving productivity and reducing costs, as evidenced by the savings in real terms of approximately 150 million reais that we achieved during first quarter '03, out of our commitment of 150 to 200 million for the year. The details behind the savings will be addressed by Brito and Felipe shortly. I would like to take this opportunity to say that this strong performance was already expected to be concentrated in the first half of 2003, and at this stage, we are keeping our commitment unchanged.

Concerning beer volumes, after reporting growth rates close to 12 percent during January and February, which suggested that we would reach 10 percent in the quarter, significant lower average temperatures in March, relative to the last four years, negatively impacted sales. In March, reflecting the lower temperatures, sales volumes declined by over six percent year over year, and draft beer, whose sales are directly impacted by the weather, declined by close to 22 percent. As a result of this performance in March, overall beer sales grew by 5.4%, below our initial thoughts.

The good news, though, is that volumes in April were up 3.4 percent above April 2002, indicating that we are on track to achieve our targets for 2003.

On the soft drinks front, we also continued to progress well in our strategy to improve profitability. As demonstrated also by results in the quarter, our core portfolio grew by 7% year on year, while the overall volume declined is attributed to our focus on higher value-added products.

Finally, this is the first quarter that includes Quinsa to our results. AmBev's internationals operations generated an EBITDA of 39.9 million reais with Quinsa proportional consolidation accounting for 39.2 million reais. We have no doubt that the prospects going forward are exciting, and Quinsa is a great company with a top notch management team, that we'll continue to work hard to capture all synergies, both on the cost and revenue front.

By the way, unfortunately, this quarter, AmBev and Quinsa were not able to release results simultaneously, and given the difference between our financials -- just two months of operations – and Quinsa's financials – three months -- we believe it would be more appropriate to wait and direct specific questions about Quinsa's operations and financials to its management team, which will be discussing its results in detail on a call this Thursday.

Now I will let Luiz Fernando talk about our beer business.

LUIZ FERNANDO -- DIRECTOR OF SALES -- AMBEV:

Thanks, Marcel.

In the first quarter we posted a 5.4 percent volume growth compared to the year-ago quarter. Strong sales in the first two months of the year were partially offset by a strong decline in March, as Marcel just explained.

Fortunately, however, the situation improved again in April, as demonstrated by the 3.4 percent volume growth year over year. Thus we remain confident in reaching our expectations of growing between two and three percent in 2003 versus 2002.

Our market share achieved 69.4 percent in March, compared to 67.1 percent in December 2002. Importantly, the gains in market share came from all the channels, in all the packages.

As we have been saying, market share fluctuations in the range of 67 to 70 percent are acceptable, as they depend on discount levels in the marketplace. As the price gap between our brand and the other brands in the market narrowed in the last couple of months -- specifically on cans -- we have been recovering market share.

Above all, we remain focused on our growth pillars: growing per capita, revenue management, profitability, sales execution, focus to further develop the super premium segment and others.

Let me give you some examples on how we are evolving on our strategy. On the revenue management front, this quarter, in the mainstream segment, we sold more of our higher-margin brand, Skol, which increased its rate in our sales mix to 57 percent from 54% in first quarter 2002. As a result, the total contribution margin provided by the Skol brand increased by almost 11 percent, year over year, naturally contributing for an improvement in our overall profitability. On top of that, the packaging mix shifted positively towards returnable bottles, which represented 70 percent of sales, compared to 69 percent in the first quarter of 2002.

In regards to the fourth quarter 2002, our net sales per hectoliter decreased to 100.7 reais, primarily as a result of tax hikes that occurred in late 2002 and, more importantly, during the first months of 2003. To date, besides São Paolo, several other states also increased their taxes – Rio de Janeiro, Goiás, Minas Gerais, just to mention some of them.

In addition, our revenues per hectoliter were also negatively affected by a shift towards returnable bottles, which, as you are aware of, have lower net sales per hectoliter but higher profitability compared to non-returnables.

We adjusted prices in October, giving us some flexibility to manage dollar linked variable costs, inflationary and tax pressures. Although the current economic environment appears to have improved with the appreciation of the local currency, inflation since our last price alignment is close to 12 percent, pressuring some of our costs.

Moreover, recently, we witnessed several increases in taxes above our expectations and also above inflation, not to mention the fact that the average exchange rate in first quarter 2003 was over our internal target, negatively impacting profitability during that period.

That said, and in line with our strategy to pass on tax increases and inflation, keeping prices in real terms stable to consumers, we are carefully analyzing the need of a price adjustment in order to compensate for the effects discussed above.

It's important to highlight that any price change will be micro-managed in order to avoid retailers passing on prices to consumers, something that if not correctly managed, would negatively impact our margin pool and market share.

Across the board pricing initiatives should not be expected, and, based on experience we have gathered recently, price initiatives could also vary per region, channel, packaging and brand.

As we have been saying over the last months, apart from pricing, there is much more that we are doing to extract more value from our brands and distribution networks.

Concerning distribution and execution at the point of sale, direct distribution for beer increased by almost two percentage points and accounted for 27.8 percent of our sales, in line with our strategy of improving execution, increasing efficiency and gathering market intelligence. In line with our strategy to almost double the number of subzero coolers in 2003 versus 2002, during the quarter we were able to place additional 27,000 coolers in the marketplace, which should help us increase volume per outlet.

AmBev's initiatives to improve revenue management continue to yield very favorable results. Bohemia and Skol Beats performance remained strong, with Bohemia's volumes 11 percent higher than the year ago quarter and Skol Beat's volumes 28 percent above fourth quarter 2002 when the product was launched. n April, we expanded the launch of Skol Beats for the whole country.

On another topic, as you know, an important part of our strategy is to extract more value from our existing brands and increase overall per capita consumption. On that front, you well know that we have been successfully re-launching some of our brands -- and launching new ones -- as it happened with Bohemia back in 2001, then with Dark Bohemia in June 2002, and Skol Beats in October 2002. And there is more in the pipeline. Next month we return with the dark version of Bohemia, with higher volumes than in 2002, and we will also take advantage of our learning curve to re-launch Original – another of our brand positioned in the super premium segment.

In early 2003, we also launched our grogram aiming to install draft beer kiosks in strategically located places and the response from consumers has been positive.

In a nutshell, despite the lower than expected volume growth in the quarter, we remain confident that we will reach our targets, not only in 2003, but also our long-term targets.

Revenue management initiatives are yielding positive results. The super premium segment continues to grow. The opportunities that we mapped out to develop our per capita strategies are an asset and distribution and execution is improving on a daily basis.

I will now pass it over to Juan

JUAN VERGARA -- DIRECTOR OF CSD AND NANC -- AMBEV:

Thank you, Luiz, and good morning to all.

This quarter, our soft drink business continued to show the results of our efforts and our focus on improving profitability, with EBITDA of nearly 36 million reais, 63 percent up, compared to the first quarter in 2002.

Our EBITDA margin achieved 12.6 percent, which compares favorably to 8.9 percent in the year-ago quarter. This increase is primarily a result of our margin protection initiatives, mainly price adjustment and revenue management.

Our main competitor increased prices and we followed suit, raising our prices in January, along with the market leader's portfolio.

As said in previous conference calls and emphasized during the site visit, with our significantly improved capability to track competitive short -- and medium-term-- pricing tactics, we will stick to the follow-the-leader pricing strategy.

This first quarter our net sales per hectoliter grew by 21 percent and 5 percent, compared to the year-ago quarter and last quarter respectively. As planned, our core portfolio, Guaraná Antarctica and Pepsi brands, grew in volume by 7 percent this quarter, and grew in importance in our mix, now representing 82 percent of our sales, compared to 75 percent last year.

Despite the positive performance of our higher-margin core Guaraná Antarctica and Pepsi brands portfolio, total volumes declined by 4 percent also affected by lower than average temperatures in March, as mentioned by Luiz, but, -- mostly -- due to the strong price realignment we planned and implemented for non-core brands throughout last year and the increased focus on Guaraná Antarctica and Pepsi portfolios.

Once again, this quarter I would like to highlight premium-priced Pepsi Twist, which has achieved 1.6 percent market share as of March, compared to 1.2 percent in December. In the cola segment, our Pepsi portfolio gained two percentage points compared to March that year, with Pepsi Twist volumes achieving 11.7 percent of the cola segment in general.

I will now pass it on to Brito .

CARLOS BRITO – DIRECTOR OF OPERATIONS -- AMBEV:

Well, thanks, Juan.

Let me start talking about what happened to cost of goods sold during the quarter.

Total cash cost of goods sold, excluding depreciation, for the Brazilian operations increased by 18.4 percent to 804 million reais in the first quarter of 2003 versus 679 million reais in the year-ago quarter, or 15 percent higher on a per-hectoliter basis.

The major contributor to the increase in cash cost of goods sold was the impact of the massive depreciation of the currency on dollar-linked variable cost and, to a lower extent, some inflationary pressures. The depreciation of the currency has a natural negative impact on our cost of goods sold, since 44 percent of them are dollar-linked, such as malt, hops, sugar, PET and all our cans.

These effects combined could have impacted our cash cost of goods sold by 191 million reais or 201 million reais if you factor-in the effect of the volume increase and the change in the sales mix year over year. However, the effective cash cost of goods sold increased by only, quote-on-quote, 125 million reais in absolute terms.

This results from the fact that the company already started to capture the 150 to 200 million reais in costs and expense savings in real terms, that is discounting the depreciation of the currency and inflation, projected for this year.

Out of this amount, during the first quarter 2003 the company was able to capture real cost savings of 76 million reais, which is the difference between the theoretical cost increase of 201 million reais that we discussed before and a real cash cost of goods sold increase of 125 million reais.

This good performance is the result of a combination of factors that we discussed extensively in our press release. However, I'd like to provide you with some additional numbers that illustrate what we have been achieving.

We reduced losses of sugar and of cans by 28 and 35 percent respectively year over year. We increased line efficiency by almost 8 percent, and overall labor turnover was reduced by 50 percent year over year. There are several other initiatives that are yielding results as well and they should help us in achieving our targets.

Although we achieved this strong performance during the first quarter, as already mentioned by Marcel, we are keeping our savings expectations for the year unchanged at this stage.

We remain committed in becoming the most efficient and the lowest cost producer brewer in the world. And we still see opportunities to close some gaps, further improving efficiency.

Now let me pass on to Felipe, who will discuss the savings that we captured on the SG&A front, as well as address our hedging policy of dollar-linked variable cost.

FELIPE DUTRA – CFO -- AMBEV

Thank you Brito, and good morning everyone.

Our consolidated EBITDA reached 677 million reais in the first quarter 2003, up 26 percent compared to pro forma EBITDA in the year-ago quarter. Besides the initiatives on the revenue management front explained previously by Luiz Fernando and Juan, and on the variable cost front explained by Brito, AmBev's operating profitability also benefited from decline in cash SG&A expenses of roughly 64 million reais, and an improvement in the performance of our international operations.

Considering our commitment to reduce real costs and expenses by between 150 to 200 million reais in 2003 versus 2002, on the SG&A front we achieved real savings of roughly 78 million reais. This is a combination of recurring savings in SG&A of 37.5 million in first quarter 2003 versus the previous quarter and a 15 percent inflation in the period. In this amount, we are already excluding savings of 27 million reais that occurred during the quarter, but that we expect to incur going forward. For instance, expenses with promotions in supermarkets that were postponed due to lower-than-expected volumes in first quarter 2003 should be undertaken.

The reasons for the decline in SG&A are extensively detailed in our press release, and I just want to reinforce again that we were already expecting the decline in SG&A to be concentrated in the first semester of 2003.

Direct distribution costs in Brazil increased to 131 million reais from 112 million in the year-ago quarter, as the percentage of direct sales in Brazil increased from 32.4 percent to 33 percent. On a per hectoliter basis, direct distribution increased 15 percent to 21.6 reais from 18.8 reais in the first quarter of last year, and this increase is primarily the result of higher freight costs and higher direct sales volumes to bars and restaurants, which represent a higher distribution cost per hectoliter relative to direct distribution to supermarkets.

As it has been over the last quarters, our financial results this quarter were once again driven by a mismatch in the way our assets and liabilities are measured. Please recall that according to Brazilian GAAP, while financial assets are market to market, our liabilities are registered at cost.

When we reported on our results for the third quarter 2002, the coupon had increased sharply from about 12 percent to 27 percent, and we registered a financial loss close to 730 million reais. At that time, I mentioned that as we had, and still have, the intention to carry all financial assets to maturity, the losses registered during that period should be reverted over time. And this started to happen in fourth quarter 2002 and also seen in this first quarter 2003.

In first quarter 2003, given that the U.S. dollar coupon rate decreased from about 22 percent to approximately 14 percent, the positive effect of marking these securities to market amounted to roughly, 350 million reais.

Our debt continued to be fully hedged, and, as you are all aware of, on January 31st we paid down approximately $400 million dollars as a result of the closing of the Quinsa transaction and, therefore, our net debt increased relative to fourth quarter 2002. Nevertheless, we remain with a very solid credit profile, as we accumulated cash during 2002 already preparing for the closing of the transactions with Quinsa.

One final comment regarding our income statement. We reported a tax charge of 250 million reais approximately in the quarter, which is in line with the tax charge we would have booked considering the statutory tax rate of 34 percent. This increase in taxation results from our operating results and the financial gains.

Finally, we are convinced that given the recent appreciation of the currency, you will ask us about our hedging policy of dollar-linked variable costs. In line with what we were telling to investors since early 2003, as the currency approached 3.2 per dollar, we gradually started to enter into hedge agreements using future contracts. Let's be very clear. We started to hedge our exposure around that level and we continued as the currency was appreciating, until our total exposure for the remaining of the year was hedged. Based on our strategy, we locked in an average -- but not linear -- exchange rate of 3.34 reais per dollar for 2003. This average exchange rate takes into consideration that we were not hedged at all during the first quarter of 2003 when the average FX rate was at 3.49 reais per dollar.

Now we can move on to the Q&A session, operator.

Q&A

OPERATOR: Thank you. The floor is now open for questions. If you do have a question, please press the numbers one followed by four on your touch-tone telephone at this time. Again, if you do have a question, please press the numbers one followed by four on your touch-tone telephone at this time. Please hold for questions.

Our first question comes from Alex Robarts.

ALEX ROBARTS: Hi, good morning. Just a few questions on costs. Can you tell us a little bit, what would make you, let's say, get more comfortable about saving more this year? I mean clearly you have 50 million left; three more quarters; is there a reason why you're particularly being a little bit, you know, kind of hesitant to talk about moving that number up?

BRITO: Hi, this is Brito. At this point we'd like to keep this commitment where we had it the last time; 150 to 200 million reais. And don't forget that as Felipe has already mentioned and myself too, we were expecting that most of these savings would occur in the first part, or first half of this year, since as you all know, most of the savings we captured last year occurred also from productivity and SG & A during the second half of 2002. So this first quarter, is, I wouldn't say it's an easy comp, but it's an easier comp than the second half will be. That's why we're keeping the commitment at the level we have right now.

ALEX ROBARTS: If you could tell us a little bit then, where would the remaining 50 come from? Is it more on SG&A, or more on the costs?

BRITO: Yes, it's more on the variable cost side. As we presented on the site visit in March, we do see opportunities in terms of some main items on the variable cost portion. It's still pending in terms of negotiations for this year. And we are kind of optimistic that we can get there on the variable cost side.

ALEX ROBARTS: Yes. And the absolute impact Carlos on the COGS that you talked about; you gave us some percentage fall, but was the real issue in the first quarter from savings in cans; from an absolute basis?

BRITO: Yes, that came also from cans, where again when we compare this quarter with 1Q02, we already had locked in a negotiation with the supplier in the second half of last year, which is showing up now when you compare first quarter with the first quarter. And we're still working on another arrangement for this year.

ALEX ROBARTS: Yes, and just to understand your hedge; you said that you locked your FX rate at the 3.34, not linear for the rest of the year; at the same time, it sounded like you were starting to buy these contracts at 3.2. And I mean, if it's not linear, what would be or, let's say, what is the rate that you've hedged in for the big fourth quarter? I mean, could you give us some color on that?

FELIPE: Well Alex , we incurred in those 3.49 reais per dollar for the first half, then we started to hedge...First quarter, sorry. Then we started at 3.2, as I said, but you should apply the interest rates on top of that. That means at 3.2, you would get let's say, 3.5 interest rate, or FX rate, sorry for December. At 2.9, you would get a 3.2 FX rate for December. The number that we mentioned that we were able to lock in the variable cost for the year, the 3.34 is the average of this whole thing. I mean, benefiting from, let's say, a 3.0 FX rate for the second quarter roughly and adding on top of that, the interest rate as we use the forward agreements to hedge all this exposure.

ALEX ROBARTS: OK. And you said in March, that your average exchange rate that you were using for your budget this year was about 3.3; is that still something that you're sticking with Felipe? Or?

FELIPE: 3.4.

ALEX ROBARTS: OK. Oh that's good. And just a clarification on the volume number for beer. You mentioned two to three was the goal for Brazil Beer. Is that industry or is that what you feel you can achieve?

LUIS FERNANDO: No, it's our volume. (INAUDIBLE)

ALEX ROBARTS: It's yours, OK. Thank you very much.

FELIPE: Thank you, Alex.

OPERATOR: Once again, the floor is open for questions. If you do have a question, please press the numbers one followed by four on your touch-tone telephone at this time.

Our next question comes from Carlos Laboy.

CARLOS LABOY: Yes. Good morning. What kind of metrics can you share with us to highlight how the third-party distribution network is doing in terms of execution versus direct distribution? And, also, on the soft drinks side, I don't know if you can talk about what some of the plans might be for new products or how some of the products you launched last year are doing beyond the new Pepsi product.

JUAN: Hi, Carlos– Juan first. If I got it correct, your question is about new products. We have – we obviously have –a very good experience with Pepsi Twist, we're learning how to work with new products and innovation and, we've got a pipeline of new products in development now.

We will take our time, because, as proven by Bohemia and by Skol Beats – both very successful – we decided to apply all the marketing technology that we developed for beer also for soft drinks. So we're going a little bit slowly there but probably faster in 2004. We already mentioned that in the site visit. What we will do this year is fully develop what we introduced last year, and that is basically, Twist and Gatorade – long way to go on those two brands.

LUIZ FERNANDO: Hi, Carlos. It's Luiz. It's a really good question – how we can compare direct distribution with third-party distributors in the market, since we have to do that when we name the multi-brand distributors. I mean, we – you know we are trying to concentrate – we have concentrated distribution in multi-brand distributors and direct distribution.

So, in the future, we won't have this mono-brand distributors. We compare them in terms of execution, using the excellence program that can give us enough information, in terms of market execution and in terms of management capacity of these distributors. So it's basically the tool that we use to compare the execution with the direct distribution execution, where we have exactly the same program, basically, in the market execution. OK?

CARLOS LABOY: Thank you.

OPERATOR: Once again, the floor is open for questions. If you do have a question, please press one, followed by four, on your telephone at this time. Our next question comes from Gustavo Hungria.

GUSTAVO HUNGRIA: Good morning, everyone. I'd just like to address a question regarding your volumes. As you said, March was not a very god month, and you had a decline – actual decline when compared to last year. I just would like to know if you already see that, as in April, in May if you see a recovery in volumes – if you have any expectations for the second quarter.

LUIZ FERNANDO: April was a very good month for us comparing to – not only to last year but also to 2001 and 2000. But I think it's too soon – too early to give you a number for the second quarter. So we believe it's going to be good. We're doing well, and if the weather helps us this time, we are sure we can have some good numbers.

GUSTAVO HUNGRIA: Thank you.

OPERATOR: Our next question comes from Pablo Zuanic.

PABLO ZUANIC: Good morning, everyone – just a couple of questions. It's the first time in this press release that Skol is supposed to be more profitable than the other core brands like Brahma and Antarctica. Can you just give us some color, in terms about what's the difference? I mean, if I take Brahma and Antarctica at 100, where would Skol be, and where would Skol be, say, relative to Bohemia? If you can expand on that, and, then, I have a couple of follow-up questions.

MARCEL TELLES: Pablo, this is Marcel. We would like to stick to the numbers we gave you in the site visit, and– these are the basic numbers. I wouldn't like to be very, very precise right now, because this is part of our pricing strategy in the marketplace. You remember that in the site visit we gave you the relative numbers to Antarctica, Brahma and Skol.

And roughly – and, again, I say roughly, you have Antarctica at 100, Brahma at 125, Skol – 140 – and you could go to Bohemia, that's basically 200. This is related to contribution margin though. So I wouldn't like to dig very much in prices, because this is a competitive thing in the marketplace.

PABLO ZUANIC: That's fine. Thank you, Marcel. I'd like to follow up. Felipe, in the press you had spoken that the tax – the excess taxes – were at three reais per hectoliter – is that still valid or is it a higher number? And I'm just trying to quantify, you know, by how much we have to increase prices to recover the excess tax.

FELIPE: From the increases we've seen since December last year, the full impact was reflected in these three reais per hectoliter.

PABLO ZUANIC: OK. So that hasn't changed. I mean, that's it. It's not any worse than that.

FELIPE: No.

PABLO ZUANIC: OK. And just one last question – when I look at one of your footnotes, in terms of what was agreed at the shareholders meeting, the way I interpret one of the footnotes – it says the number of issued shares as part of the stock option plan increased by 6.8 percent. You're talking about outstanding shares. Is that correct or not?

If I take the number of issued shares as part of the plan relative to the total outstanding shares, I get a number of 6.8 percent, and I thought that the idea was that the gross increase for the year was going to be no more than two percent.

FELIPE: I don't have the specific number in my mind, Pablo. We will double check and give you an answer, but you should take into account that the options granted on a yearly basis right now cannot be higher than one percent.

And that may be the case in one specific year, as 2003 for instance. People who did not exercise their right to acquire shares in the past – they may be buying now. That said, we may have a capital increase higher than this one percent of the free float, despite the fact that, on a yearly basis, the options being granted cannot be higher than one percent.

MARCEL TELLES: Basically, we stick to our point of not increasing the stock option program – actually, the stock ownership program – by more than one percent of total capital for the year.

PABLO ZUANIC: OK. Thank you, Marcel. That's good. Thanks.

MARCEL TELLES: Welcome.

OPERATOR: Once again, if there are any final questions at this time, please press the numbers one, followed by four, on your touch-tone phone.

Our next question comes from Jose Yordan .

JOSE YORDAN: Hi. Good morning. I had a question about margins in the soft drink business. I was somehow expecting the Gatorade or the non-alcoholic drinks that were added this year to have a much greater margin than the rest of the business or the business as it was reported last year.

Can you comment on why margins are basically the same between those two subdivisions of soft drinks and where you see margins going for the non-alcoholic, non-carbonated business going forward? If there was anything unusual there or should we expect that to be the case always?

JUAN: No. Nothing unusual except that obviously we will gradually improve our disclosure on what we call NANCs, non-alcoholic, non-carbs. And that includes a lot of things; from very low, practically no-margin water, to a high-margin Gatorade.

So it is a combination of margins and volumes and you can expect that Gatorade’s margin is significantly above soft drinks. And in profitability, water is significantly below soft drinks’ profitability. So as the quarters go on we will improve our disclosure, but nothing to worry.

I should take water out of that and you would get much better margins.

JOSE YORDAN: Maybe I can ask you this way: do you expect water to grow faster than Gatorade or vice versa in terms of volumes?

JUAN: Vice versa.

JOSE YORDAN: OK. Thank you.

JUAN: Thank you.

OPERATOR: Our next question comes from Alex Robarts.

ALEX ROBARTS: Right. Just two quick follow-ups. The news that we're hearing is that Cintra is looking for a partner domestically in terms of taking an equity stake. Would there be any reason vis a vis this CADE agreement and such back with Antarctica that you could not potentially partner or take a stake in that domestic brewer?

That's the first one. The second one is just given kind of a sense of when do you think Guatemala and Peru will really start to produce? I know it's kind of longer-term, but if you could give us some kind of update there?

MARCEL TELLES: OK. In terms of anti-trust in Brazil, I don't see AmBev being allowed to acquire any equity participation or any brand over what we have, so it's basically developing and working with what we have in our hands.

Guatemala, we are expecting to begin production in the fourth quarter of this year. Peru is more for next year.

ALEX ROBARTS: Thanks.

OPERATOR: Once again, if there are any remaining questions, please press one followed by four on your telephone at this time.

Our next question comes from Robert Wertheimer.

ROBERT WERTHEIMER: Hi. Good morning. Perhaps you've already addressed my question but I just wanted to check on soft drinks profitability. It was pretty solid this quarter. Wanted to see if you had any sense of what kind of profitability could be attained for the year and beyond.

JUAN: Well, I mean, we didn't give much guidance on that, but I would suspect that we could do better than last year, and like we said at a conference call we will expect to grow faster

ROBERT WERTHEIMER: Great. Thanks.

FELIPE: Thank you.

OPERATOR: Our next question comes from Manuel Ramos .

MANUEL RAMOS: Hi. Good morning. Just two quick questions. One is what was your cash tax payments during the first quarter, and two, what is your CAPEX budget for the year?

MARCEL TELLES: Felipe, will you take that?

FELIPE: Yes. The CAPEX we are expecting right now for 2003 is roughly 800 million reais, including direct distribution investment, replacement of bottles and crates, investments in cooler programs and, some productivity projects we have in place in order to capture the savings on the SG & A front.

The first question, which was the cash taxes paid during this quarter, I prefer to double check the number and give you feedback later on top of that.

MANUEL RAMOS: OK. Thank you.

OPERATOR: At this time, I would now like to turn the floor back over to Mr. Marcel Telles.

MARCEL TELLES: Once again I would like to apologize for not having a better coordination between Quinsa and AmBev in terms of reporting. From now on we'll try to report in the same day so that most of the questions will be more correctly answered regarding the two companies. And again, we liked this quarter. We think that we have opportunities ahead, so we are looking forward to produce even better news in the next quarters. See you there. Good bye.

OPERATOR: Thank you. This does conclude today's presentation. Please disconnect your lines and have a wonderful day.

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