American Beverage Company
Compañía de Bebidas de Las Américas
Companhia de Bebidas das Américas
AmBev

Transcript
First Quarter 2004 Earnings Conference Call
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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 2004. 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. [operator's instructions].

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. Carlos Brito, AmBev's CEO. Please, Mr. Brito, you may begin your conference.

Carlos Brito, AmBev's CEO

Thank you. Good morning, everyone. Today, I have with me on this call from our management team, Luiz Fernando, our Sales and Distribution Director; Miguel Patricio, our Marketing Director; João Castro Neves, our Soft Drinks Director; Juan Vergara, our COO for International Operations; and Felipe Dutra our CFO.

After the challenges we experienced in the fourth quarter 2003, we are pleased to announce the first quarter 2004 results. Our EBITDA reached R$894 MM, representing a 32% growth year-over-year, and our market share increased from 63.2% in December to 65% in March. We feel confident that we are on track to a sustainable price and profitable market share recovery that will lead us back towards 67% to 70% market share range. Our people are much energized for the challenges we have for this year, and we're very committed to deliver them. The drive and morale of our team are both very high.

Going forward, we recognize we still have some challenges ahead of us for this year, but we are sure that our team has got what it takes to get there. I will now pass it on to Luis Fernando.

Luiz Fernando, Sales and Distribution Director

Thank you, good morning. I will start commenting on AmBev's Brazilian beer volumes in the first quarter. We experienced a decrease of 6.2%, a consequence of a contraction in the market of 2.8%, according to new Nielsen data. On top of that, we had a negative difference of 4.2% in our average market share for the quarter. Total beer volumes amounted to 13.2 million hectoliters.

Regarding our efforts to recover our market share, we've been implementing them very carefully in order to achieve consistent results. We acknowledge the importance of balancing the recovery between the on-premise and supermarket channels, prioritizing the on-premise ones, where profitability is higher. At this point, I'd like to highlight the contribution of our sales people, who very successfully executed our market program in order to leverage the relevance of our brands to the point of sales in the small retail segment.

Going forward, we remain committed to keep on recovering market share to get back to the 67-70% range in a profitable and sustainable way.

Regarding volumes for the second quarter, we achieved in April volumes roughly even to last year. Considering that, and observing our market share in March 2004 and March 2003, we expect a further increase in our market share in the next Nielsen report, and we also think that the beer market is showing some signs of recovery in terms of volume.

Moving to the net sales per hectoliter in the Brazilian beer business, we achieved R$116.2 in the first quarter, representing a decrease of 3.4% compared to the fourth quarter 2003, in line with our forecast provided in the last conference call. The main causes for this increase were the increase in the reference price for the ICMS tax in important states of Brazil, actually higher than our expectation in São Paulo; the mix from cans to returnable bottles; and the price promotion executed for the Antarctica brand in some regions of the country.

Going forward, we remain committed to keep prices to consumers stable, at real terms, and to improve our net sales per hectoliter through our revenue management initiatives, addressing the improvement of sales of our higher margin products; shifting volumes towards our direct distribution system; the permanent assessment of the industry margin pool; and obviously, continuing with our sub-zero cooler placement program.

As an example of those efforts, compared to the year ago quarter, we grew by 3.4% the volumes of our super-premium portfolio, which now represents 6.8% of our sales mix. This increase was mainly driven by the growth of Skol Beats and Original.

Finally, we remain on track with the expansion of our direct distribution system. In the first quarter, 41.7% of our total volumes, including soft drinks, were sold through our proprietary network, representing an increase of 9.1% compared to the first quarter 2003.

I'll pass the word now to Miguel.

Miguel Patricio, Marketing Director

Hello, everyone. I would briefly mention that we are very satisfied with the performance achieved by our brands in recovering market share in the last three months. We understand that the results achieved so far give us a clear sign about the effectiveness of our strategy, the strategy that we have developed, which is aimed at both consumers as well as at the trade level.

After recovering 240 basis points of market share since last November, we are glad to enjoy the confirmation of the health of our brands. Those results provide us with the confidence that we are on the right track, which should lead us again to the 67-70% market share range.

Parallel to the efforts dedicated to the market share recovery, we remain working in order to further enhance the equity of our higher margin brands. First regarding the Skol brand, we successfully ran in the quarter the fifth edition of Skol Beats, the biggest music event in Latin America, and we recently launched, in April, the Big Neck, Skol Big Neck, an innovation packaging for Skol, which provides the consumers 500ml one-way bottles with an enlarged top design to improve drinkability and increase consumption.

Furthermore, we have re-launched the wheat edition of Bohemia, the Bohemia Weiss, which will remain now in our regular portfolio.

Finally, and also part of our efforts to improve the profitability of our sales mix, we are running a new campaign for the Brahma brand focused on draft consumption, where Brahma leads this very profitable segment. I ask now Juan to proceed.

João Castro Neves, Soft Drinks Director

Thank you, Miguel. Good morning, everyone. I am happy to say that we started off the year in the right way, achieving important volume growth and with margin improvement. More than at any other time, we needed to sharpen our "right-fews" strategy. We want to continue to grow the business, our CSD Division, at meaningful rates, but without distracting our beer execution.

In this quarter, we were successful in that sense, increasing the profitability of our division by focusing on our most profitable brands and executing a better marketing mix to our new consumers through new packaging and by strengthening our CSD coolers program. Besides bringing new advertising for our core brands in the quarter, we also continued to bring beer expertise into the CSD segment, both in terms of revenue management as well as market execution, the coolers program management being a good example of that.

Therefore, I believe that we are better prepared to face a challenging 2004 CSD market, which has not yet shown the growth pattern that we expected, but at a time that the players are looking for profitable ways to grow into the market place through innovation and new packaging mix. Thank you and I will pass now to Juan Vergara.

Juan Vergara, COO – International Operations

Thanks and good morning. I will start my comments on the International Operations with Quinsa, which continues posting impressive growth rates, and obviously delivery very positive results. Quinsa's contribution to AmBev's EBITDA was R$134.1m, which represents, at this point in time, 86% of the International Operations' EBITDA.

On top of the improvement in Quinsa's performance, we enjoyed the benefit of a higher equity consolidation, which is the consequence of what we had already mentioned in previous quarters, the acquisition of an additional 12 million class B Quinsa shares, which we performed during 2003.

We will have the opportunity to hear and explore the details of this great performance directly with Quinsa's management at their own conference call tomorrow at 9.00 am Eastern Time.

In the Dominican Republic we announced our alliance with Embodom, which is the Pepsi bottler for that country, in February. We have acquired a 51% stake in the company. That stake will rise to 66% when we finish our beer plant in Santo Domingo, which we expect to do in early 2005. Embodom's contribution to AmBev's EBITDA of R$6.3 million implies an EBITDA margin of nearly 24%, which is very positive for a Soft Drinks only operation.

In Venezuela we definitely remain committed to growth in that beer market, and we believe that we have finally found a business model that will take us to a certainly more competitive market share position. It is important to highlight that it is already the case in our focus areas.

In the first quarter, we achieved in Venezuela a 62% growth in volumes, very importantly, because we are recovering from a general strike that stopped the country in the first quarter of last year, 2003. Nonetheless, there has been devaluation of the Bolivar, which puts our profitability under pressure, and our EBITDA in that country was R$3.6 million negative.

What we are doing at this point, our efforts in Venezuela are dedicated to the expansion of our direct distribution and our digital coverage in those regions where we already operate, and obviously, the implementation of AmBev's best practices in, what we call, sales technology.

On the other hand, we continue to build brand equity, with very strong and very popular marketing campaigns, and finally, we are focusing on key areas, and, as mentioned before, we have seen the positive effects of that focus.

Regarding Ecuador, we are in the initial stages of reshaping our distribution system. We have actually already completed the restructuring of the sales operation in Guayaquil, which is the main market in that country, and we are now working on boosting the efficiency of our delivery system in Guayaquil. Also, and more importantly, we are doing our homework to understand the Ecuadorian beer consumers.

In Peru, we are now definitely ready to begin construction of our beer plant. We are just pending only a bureaucratic approval of construction licenses, which is under process. Meanwhile, we are using the time in Ecuador to deeply understand the Peruvian beer consumers. Our Soft Drinks operations definitely is providing us with an excellent opportunity to make ourselves familiar with that market place, and not to mention the positive results we have already achieved.

But one important comment, however, regarding results - the EBITDA margin achieved of 14.2% should not be considered for short-term projections. We had in this quarter the benefit of an R$700,000 reversion of provision, which impacted EBITDA. Adjusted by this effect, our EBITDA would have been roughly R$4.1 million, with a margin of almost 10%, 9.8%.

Finally, a few words on Guatemala's Cerveceria Rio, the second largest contributor to our International Operations. Cerveceria Rio results delivered an EBITDA of R$14.8 million, with an EBITDA margin of 47.9% of net sales. This business model, based on a partnership with a strong Pepsi bottler has definitely proving to be very effective. After seven months of operation, our coverage already reaches over 80% of point of sales in the country, and our share is now estimated at 30% in Guatemala.

Now, going forward, Cerveceria Rio's operations will now move on to Nicaragua, in this second quarter, where CabCorp, our Guatemalan partner, also holds the Pepsi franchise and a very strong distribution system.

So in general terms, we're very pleased with our first quarter results, especially as we better understand that there's a huge amount of work ahead of us, but to capture what we call a world of opportunities. Thank you, and I will now pass it on to Felipe.

Felipe Dutra, CFO

Thank you, Juan, and good morning everyone. First of all, I want to address the benefits we capture in the cost of goods sold, which were the most important lever in order to offset the higher selling and marketing investments incurred during this quarter.

Cash costs of goods sold per hectoliter for our Brazilian operations achieved R$40.7 in the quarter, 5.7% lower than in the first quarter 2003, and 4% lower than in the fourth quarter 2003 as well. Despite the lower volumes, consequently lower fixed costs dilution, we were able to deliver not only a better variable cost per hectoliter, mainly driven by the foreign exchange rate effect, but also a lower fixed cost per hectoliter as a result of our high efficiency at the plant level.

Regarding the foreign exchange rate effect, although the average foreign exchange rate prevailing in this quarter was much lower than the year ago quarter, approximately 17% lower, we had to keep in mind that, due to the carry-over effect in our inventories, especially in our malt inventories, we were not able to fully benefit from that. Please recall that back in the beginning of 2003, we carried some inventories that were built at an FX rate of roughly R$2.42 per dollar, the implicit rate prevailing in our costs during the fourth quarter of 2002.

On the other way around, this quarter we carried some inventories that we built during the fourth quarter last year, at a R$3.30 level, therefore negatively impacting our variable costs based on the hedge structure we had at that time.

Regarding commodities, lower sugar price, combined with the lower costs of adjuncts as well as better barley mix, and positively impacted our variable costs per hectoliter. Once again, please recall that we had a poor barley harvest in South America last year, which made us increase the percentage of European barley in our barley mix last year, thus negatively impacting our costs. Partially offsetting the benefits I just mentioned, we incurred higher Aluminum and PET resin prices during the quarter.

Moving to the SG&A expenses, Brazilian operations expenses totaled R$547.6 million in the first quarter, roughly 31% higher than in the first quarter 2003. The main drivers for this increase were the selling and marketing and direct distribution expenses. In the case of selling and marketing expenses, as we have already anticipated, the increase is in line with our strategies.

Regarding direct distribution, the increase of 31% observed in the first quarter is a consequence of both an increase of 22% in the volumes sold through our proprietary distribution system, and a higher volume sold through the on-premise channel as a percentage of our sales mix.

Also it is worth mentioning that as a result of some incorporation that we have been making in recent quarters, our direct distribution fixed costs per hectoliter went under pressure. However, this effect should reverse as long as we return to our 67% to 70% market share level and deliver some growth.

Still regarding SG&A, our P&L shows an increase of 10% in administrative expenses. As we stated in our earnings release, most of that increase is linked to a provision related to top management, complimentary and variable compensation, which should be paid only in the case the company achieves its operational targets by the end of the year.

Addressing taxation, I would like to point out that during February and March, we faced a new PIS/Cofins transition period, and based on this new taxation methodology we had to absorb higher charges during February and March. As the new system was in place in the beginning of April, we will not be suffering from this unusual charge any more.

Regarding the flow meters, we are on track to have all equipment installed during the second half of this year. Considering this timetable, the benefits from having a playing field with lower tax evasion should start to be captured in 2005, as we previously anticipated.

Finally, talking about our net financial results, we posted a consolidated net financial expense of almost R$216 million in the quarter, roughly in line with the net financial expense of R$204 million, registered last quarter. We note that most of you always have a very hard time trying to forecast our net financial results, due to the fact that we utilize swaps and derivatives to protect our dollar-denominated debt, and also due to the differences in the Brazilian accounting principles, based in the way we book assets and liabilities.

Therefore, volatility in foreign exchange rates and interest rates can cause significant variations in financial income and expenses. However, this volatility does not represent a cash disbursement or neither a cash gain, as we always intend to carry those assets until their final maturity. That said, if we were able to book assets and liabilities on a market-to-market basis, our net financial results would have R$178 million better than reported.

Now, we can open the floor for the Q&A session.

Operator

Thank you. The floor is now open for questions.

[Operator Instructions]

Our first question is coming from Robert Ford of Merrill Lynch. Please go ahead with your question.

Robert Ford

Good morning, everybody, it's Bob Ford from Merrill. I hope you're well. I was calling in respect to the marketing spend. I was somewhat surprised by the spike in advertising and publicity spend, and I was hoping you could comment a little bit about what you're seeing in terms of the dynamics in the advertising environment right now compared to previous periods.

I was also hoping you could share some of your softer measures for brand preference numbers, and make sequential comparisons of those as well, as you tried to recover share. I'm interested in understanding brand equity perception. Thank you.

Carlos Brito

Hi, Bob, good morning, this is Brito. As we have stated before, the market dynamics and competitive dynamics changed in the last quarter of last year, and therefore, we had to respond with more marketing investments. What we saw in the first quarter of this year, I wouldn't say it's a good guidance for the rest of the year - for example, in the second quarter, we've seen investments easing off a lot from the competition side and from our side in April and May, and we intend to follow as the market moves in the more rational direction.

Having said that, we have a commitment here, inside the company, and that is budgeted in, that any increase in marketing expenses that we have to support our brands will be funded by internal savings, being it on the variable costs or on the fixed costs. Of course, I would like to give more guidance, but at this point I'm sure that's not a good idea, since we are in a very competitive environment, so I'll be giving information to our competitors. So again, first quarter, big investments, not a good guidance for the rest of the year. April/May, market more rational, we are following that market, and we expect the market to be more rational going forward.

Robert Ford

Brito, do you have an estimate of how many share points you may have picked up in April? I'm also curious if you can give us an estimate of what the PIS/Cofins hit was during that February/March transition period. That's it, for me, thank you.

Carlos Brito

In terms of share points, the next Nielsen reading should become available in the next two days or the next week. We expect to continue on a positive trend, but it's hard to say, Bob, because we'll have to wait for Nielsen to see how the market grew or decreased or kept stable in April. But we expect to continue at this for the next reading or so, in a positive market share recovery trend.

Felipe Dutra

Regarding the Cofins, Bob, we were negatively affected by R$2 to R$3 per hectoliter, close to R$3 per hectoliter during this transition period, and this will be reverted during the second quarter, starting in April. However, we do have some tax increases here in some states, especially in São Paulo in which the tax increase was well above our expectations, and then, the net result from this lower PIS/Cofins and the higher taxes on the state level should be neutral, or flat during the second quarter this year.

Robert Ford

Great, thank you very much.

Operator

Thank you. Our next question is coming from Alex Roberts of Santander. Please go ahead.

Alex Roberts

Hi, good morning, just to follow up on the beer pricing outlook here in the second quarter. I mean, if you've got basically a situation with a stable competitive environment, and these tax issues that might hinder some revenue per hectoliter increase, do you think that on balance, the other revenue management levers might get you to a higher average price in the second quarter, versus the first quarter?

Carlos Brito

Hi, this is Brito, Alex. No, at this point, what I think is that we'll stay flat price-wise going into the second quarter, and the reasons are: as Felipe mentioned, the PIS/Cofins transition period being over, that will be beneficial for our top-line, so that's a plus; the other plus is that we've been fine-tuning some of the market activities and price points we've been implementing in the market place which should also help the top-line, so there are two positives.

On the negative side, we have taxes, as Felipe also mentioned, at the state level some taxes went up, and some went up a little more than we anticipated. And the fourth thing is the package mix. Right now, we're recovering share much quicker on the returnable bottles than on the non-returnable bottles. That has a positive margin effect, but a negative top-line effect. So, all in all, it was all these four things. We should see flat net revenues, on average, for the second quarter.

Alex Roberts

Okay, I guess that leads me into my second question. You didn't mention the premium brand, and I guess, I'm just noticing that, together with the draft beer. You got in the first quarter about 7%, just under, of your beer volume in that premium beer brand segment, which seemed to be a good increase. I mean, in the first quarter of last year, you were 6.1% or so. I mean, it sounds like they're growing faster than your mainstream brands. Could you give us a sense of how high you think this percentage can go by the end of the year, perhaps, just a kind of a range?

Carlos Brito

It's really hard to say, because it also depends on consumer confidence levels and disposable income. At this point I can tell you that we're very focused on the mainstream brands, however we're not forgetting them, the super-premium brands, because they are very important to the top-line, and as Miguel mentioned, we do have some new product innovations that we'll be doing in the next few months, like the Bohemia Weiss, the super-premium brand supported for the first time, compared to the last two or three years, media-wise, and also Skol Beats that has a very high margin, and is showing some good volumes.

But again, this is a good and positive side from the top-line, but again, the top-line has many effects and posted some negatives, but that's why I give you the answer of a flat top-line going into the second quarter.

Alex Roberts

Okay, and the notion of kind of having stable beer pricing, as you said earlier in your comments in real terms, I guess that's going to be more of something that's a second half of the year phenomenon, to get up to inflation price?

Carlos Brito

Yes, our guideline, and we're sticking to it, is that year-over-year on average, we will keep at least our prices in real terms constant. That is, we will at least increase our prices with the inflation index, the IPC index.

Alex Roberts

Fair enough, okay. The last question is on the water strategy. It seems that clearly Flatelli Vita have been showing some drop and because of distribution costs, kind of seemed to be rethinking that water strategy. Is there room, and could this be an indication that you might be thinking about some other products or brands in the water segment? I'm getting the sense that perhaps Acqua Fina could be an option for Brazil in the short-term? Could you comment on that?

João Castro Neves

Yes, we made some changes at the Fratelli Vita business, you're right, regarding the margin of contribution of the water business, and at this point, we're not considering launching any other brand, either Acqua Fina or one of our own brands, because of the same costs situation that we have.

Alex Roberts

Okay, thanks very much.

Operator

Thank you. Our next question is coming from Lore Serra of Morgan Stanley. Please go ahead.

Lore Serra

Yes, first just a clarification on your comments about consumer prices. You're saying consumer prices, you're targeting to be stable in real terms, year-on-year, so is the implication there that as you allowed the price increase last year, you would look to take pricing in the second half of 2004?

Carlos Brito

Well, as we mentioned last quarter, if I'm not mistaken, we would not like to announce any formal price increase. What we're saying is that, year-over-year on average, you should see our price and net sales on average per hectoliter be, in real terms, stable.

Lore Serra

At consumer level?

Carlos Brito

At the consumer level for sure, and also within the company when you look at our top-line, so that of course will have an implication there going forward, so there are some revenue management initiatives that we have to do. We have to do something, because as you go to the third and fourth quarters, the comparisons are not going to be as favorable as this first two quarters. At this point, I wouldn't like to make any formal announcement of what we feel because of the competitive situation, and also because it's kind of early in the year still.

Lore Serra

Understood. On the commodities, is there a way you could give us your outlook for 2004, against 2003 on your major commodities? In addition, it would be helpful for us to understand if there is any additional commodity pressure or commodity relief you're expecting to see in the second quarter that wasn't reflected in the first quarter numbers?

Carlos Brito

Okay, from the top of mind, I can say that Aluminum and PET, as compared to last year, we have a tougher price environment, so we pay more for those two commodities. On the other hand, when you look at sugar, corn and malt, we have the inverted scenario. Of course, all in all, those are all affected by the foreign exchange rate, because also, so far, on a positive note as compared to last year.

So I mean, I would love to answer your question but the Aluminum is already, it is not 100% reflected in our costs in the first quarter because we do have some carried forward effects. But going forward, we should see prices on a per hectoliter basis going to the second quarter, flat or to a 2% decline. That is what we should see in terms of guidance for cost of goods sold for the second quarter this year. These being soft drinks or beer on average.

Lore Serra

The net impact of all those currencies should be flat to down 2%?

Carlos Brito

Yes, down 2%.

Lore Serra

And I guess - if I could ask Felipe, with the recent volatility in the exchange rate, are you reconsidering your policy of not hedging for 2004?

Felipe Dutra

Yes, we have been tracking the FX rate very closely. For the moment we are hedged, which means that to the end of this month we are not suffering from the recent volatility. We are hedged at a R$2.92 level and at the present moment I think, going forward, the implied forward rate, is still very high because of the very high interest rates in Brazil. Therefore, I think from time to time we may be protecting ourselves during the short-term, let us say, in 30 days to 60 days, not more than that.

And I have said, we have protection till the end of this month. And we will be benefiting from the carry over inventories during the next month, which means the second quarter should not be negatively effected by the current FX level. And we will have to manage the exposure for the third and fourth quarter. However, based on the Canadian cash flow, we will have a natural hedge to protect close to 70% of our exposure. Later on, as we expect the closing for July, or August maybe, it means that our exposure going forward is not that high as it was in the past.

Lore Serra

Great. And my last question to Brito. I mean, as you have mentioned, if you are going to close the deal with Interbrew by August, you could be running the Canadian franchise through AmBev as early as two months from now. Can you talk about how AmBev is preparing itself for absorbing that franchise in July/August?

Carlos Brito

Yes, that is in my experience, and from what we have seen in all the diligence and the contacts we have had, the Canadian team is a very good team. They know that business really well. And if you look at the

Brahma history, when Marcel came on board in 1989, he only brought three people with him. And the guys really made a big turnaround with the guys that were at that company at the moment with the right incentives and right targets.

I should also add that we do have a convergence committee in place - it is in its second month. And we are dealing with some questions that - on how to manage when this whole new alliance is all settled and approved.

Lore Serra

Thank you.

Carlos Brito

Thanks.

Operator

Thank you. Our next question is coming from Joaquim Lopez of Deutsche IXE. Please go ahead.

Joaquim Lopez

Good morning gentlemen. I wanted to ask you about profitability in the Pepsi operation in Quinsa. I know this is probably more in Quinsa's field but, you know, given the substantial profitability improvements we have seen in the Pepsi operation in Brazil. You know, have you identified any opportunities for improvements in Argentina through the use of the best practices you have at AmBev? And, I mean what kind of upside do you see there? Because, you know, judging by the market structure, it would seem that this co-operation should more or less have similar profitability outlooks?

Carlos Brito

Joaquim, obviously this is a question that would be better answered by Quinsa in their conference call tomorrow. But, you know, we have a very open communication obviously. They have full access to all our best practices. Their actual structure, the way they are managing the business - they have picked up the learning on how we structure the business here after AmBev was created.

There is a permanent exchange of ideas. We are looking at a margin pool opportunity. So, yes, there is a lot of inter-exchange in both directions. But I think the details you can certainly get from Quinsa tomorrow.

Operator

Our next question is coming from Michael Byrne, Performance Investments. Please go ahead.

Michael Byrne

Morning gentlemen. I am going to address this question to Juan. I understand your expansion into the Peruvian market and I was wondering when do you plan on beginning to sell beer in the Peruvian market?

Juan Vergara

Actually, I came from Peru last night so that is a question I ask myself. We are actually fully ready. We have the land site, it has been leveled. 100% of the equipment is in place. All the blueprints are ready. We are actually in the process of getting the bureaucratic part - the licenses. Unfortunately, we have found a lot of legal obstacles, and we do not know coming from where, but a very well orchestrated plan to delay our building the factory.

We have suffered some 17 or 18 processes at a rate of about two a month. We have been able to get rid from almost all of them. We have three pending - the last one, I think, it showed up yesterday when I was in Peru but I will get over that. So at this point in time, our original plan was second - a third quarter, sorry. We are now looking -- We would now be able to go in fourth quarter but it all depends on the approvals and figuring out who is behind delaying our construction.

Michael Byrne

Thank you.

Operator

Thank you. Our next question is coming from Celso Sanchez of ING. Please go ahead.

Celso Sanchez

Hi, good morning. Just wanted to get a little bit more color on what you see in the Brazilian beer market overall. Obviously competition is a big factor but just in terms of the overall market demand and the fact that it seems to really be struggling. Can you explain in a little more detail what factors you see of the outcome [inaudible]? Is it something else? Is there a shift towards other categories perhaps? Can you just give us a little more color on that?

Carlos Brito

Yes, well Celso, I think - I mean from what the Nielsen's number show, the market has decreased on a year-over-year basis in the first quarter this year by between 2% and 2.8% decrease in the beer market in Brazil. Of course, there were some other things other than the economy that effected. The other was one thing - we had a very poor weather last summer, and also disposal income also did not help.

What I should say though is that April was a very good month volume-wise. So that also may be the weather become normal again but also, somehow the market we think did move a little bit. And we had almost a flat month volume, even with the lower share, as compared to the last year. So that is good news for us and we expect this to continue.

Celso Sanchez

Okay, so you had a very difficult month as I remember correctly last March of 03. And I do not know if that was weather related or what happened then? I wonder if that is still an apples to apples comparison of the first quarter this year?

Carlos Brito

You mean March 2004?

Celso Sanchez

As I recall last year when we were at the conference, the run rate was about 10% volume growth and then it came in, I think, closer to 5%, which you just said a very difficult March 03.

Carlos Brito

Okay, I remember, okay. The thing you have to remember is that with the carnival season last year was in February. And that has an impact on how volumes get allocated between February and March. And this year was almost March, was towards the end of February. So that has an impact on how value gets allocated.

Celso Sanchez

Okay, thanks. If I could just - a kind of follow-up question on the flow meters issue. This has been something that I have not, I guess, fully grasped in terms of the timing - the legal issues involved in terms of actually getting it implemented and so forth. You said the second half of this year, if I heard you correctly, you were going to have them installed?

If I heard that correctly, you went under the impression when the road-show was at announcement of the deal, that there was something said about that they actually had to be installed by - pretty much by now. Did I misunderstand the timing or has it been a technical glitch? What is the issue?

Felipe Dutra

The point is that once the first supplier is approved, and this is happening in the coming days, the industry will have up to six months to install all the equipment, which means we should expect equipment starting to be installed in the coming months and entering into, during the second half of the year. And we change the time limit the industry we will have to install the equipment.

Celso Sanchez

Okay, so just so I am clear. Has the supplier been approved yet or is that still pending?

Felipe Dutra

No, that is still pending but in IMETRO, which is the local authority appointed by government, has been working on that. And we expect that to happen very soon.

Celso Sanchez

Okay, Thank you.

Felipe Dutra

You are welcome.

Operator

Thank you. Our next question is coming from Paolo Vincelli of Gabelli Asset Management. Please go ahead.

Paolo Vincelli

Thank you. Good morning. I have two questions regarding the Interbrew transaction. The first is if you could please give us an update on this status and what approvals are still needed? And what the timeframe is for when you are expected to close? And then I will follow-up with the second if you could answer that first.

Felipe Dutra

Okay, hi, this is Felipe here. We have a shareholders' meeting yet on that next week in order to approve the incorporation report prepared by management, and also in order to appoint the firm that will be preparing the LAUDO, which is the report lays down the book value of the two assets - I mean AmBev and Labatt. During July we should have the second shareholders' meeting at AmBev's level in order to approve Apsis report. And finally the issue new AmBev shares to be issued for Labbatt shares.

And at Interbrew level things are moving according to the plan as far as we know. And, therefore, we would be able to close by July or August.

Paolo Vincelli
Okay, and then that would imply that the Braco's transaction closes in July or August? And then I guess there will be a follow-on offer to the minority shareholders of the ONs?

Felipe Dutra
That is right. It says, under current corporate law, once we have a change in our controlling structure - that is the case since Braco will be changing their -- Braco shareholders will be exchanging their Braco shares to new Interbrew shares as being issued. We will have to present to CVM a mandatory tender offer of proposal, in order to extend Braco's rights, based on 80% of the implied price that Braco got, and that should happen 30 days after closing.
And once it is approved by CVM, this mandatory tender offer should take place at the local stock exchange during the following 30-45 days.

Paolo Vincelli

Okay, and just one further question, and I think you and I have discussed this before. But I understand that we get 80% of the consideration that is paid to Braco. What I do not understand is at what point in the time the price of Interbrew stock will be measured to determine what that value is?

Felipe Dutra

That is a point the lawyers have been discussing with CVM. The expectation is that we have an average for a period of time to be determined, but this is not clear yet.

Paolo Vincelli
And that period of time would theoretically be before the close of the Braco transaction?

Felipe Dutra

Probably yes, but we cannot speculate on that. CVM will be deciding and we will have to wait and see.

Paolo Vincelli

Okay, Thank you very much.

Felipe Dutra

You are welcome.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to Mr. Brito for any closing remarks.

Carlos Brito

Well, thank you everyone. And as a closing remark, I would like to point out that we feel very good about the first quarter results. We also see some positive trends, being share and profitability wise going forward into this year. We feel and we are sure that we have got the resources and strategy, and I will need it at this point of time. And more important, we feel that our people are very excited, focused and properly motivated to deliver towards our targets. So, thank you very much and see you next quarter.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.