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

Transcript
Fourth Quarter 2003 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 their earnings release for the fourth quarter of 2003. We inform that all participants will 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 limited to two questions per person. At that time, further instructions will be given. Should any participant need assistance during this conference, please press *0 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 will turn the conference over to Mr. Carlos Brito, COO for Brazilian Operations. Please, Mr. Brito, you may begin your conference.

Carlos Brito, COO for Brazilian Operations

Thank you very much, and 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 new Soft Drinks Director; Juan Vergara, our COO for International Operations; Felipe, our CFO; and from AmBev's IR team, Pedro and Fernando.

Before I start this conference I would like to mention that we're very excited regarding the transaction we just announced. We are going to conduct this conference in the same way we usually do. We're going to discuss our fourth quarter and full year 2003 results and then, before we move on to the Q&A section, Felipe will provide a little bit more color on how we value the transaction with Interbrew.

2003 was a tough year. We're not satisfied with the results we delivered, and we acknowledge that was below our expectations, and also below what we think our shareholders deserve.

In 2003, a sluggish economic environment combined with the bad weather conditions, hit the Brazilian beer market dragging its volume by 2.1% according to Nielsen data. In addition to that, unsustainable and unpredictable marketing disbursements made by one of our competitors, as well as a higher-than-usual delay in the price realignments of our competitors negatively impacted our volumes.

Apart from that, we were also hurt on the cost front. The negative effect of our currency hedging policy on dollar-linked variable costs, as well as the higher commodity price environment prevailing in the first half of last year, especially malt due to the bad barley harvest in South America more than offset all the operating improvements that we've achieved, and which I will go deep in details later on.

As a consequence of what I just mentioned, our EBITDA for Brazilian operations grew 5.5% in '03, mainly driven by the weak performance of the Brazilian beer segment, which grew only 3.1%. Our consolidated EBITDA totaled R$3.1 billion in '03, representing a 9.6% growth versus our pro-forma EBITDA for '02, or 13% growth year-over-year, if we take Quinsa away from the '02 pro-forma statements.

Though we haven't reached our internal profitability targets, we cannot be ashamed of '03. '03 was a very important year to further consolidate our long-term strategy, strengthening even more our growth pillars in order to prepare ourselves for new challenges. Talking about the achievements that we reached during this year, I'd like to briefly highlight some of them, and then let my colleagues address further details on that.

Concerning our revenue management efforts, once again we were able to successfully deliver stronger results. Skol brand increased even more its proportion in our mainstream portfolio, growing from 55% to 56.4% in '03. Regarding our distribution efficiencies, we continue to work hard on them. Total volumes sold through our direct distribution network in the fourth quarter '03 reached 41.9%, over 750 basis points ahead of the same quarter last year.

On the third party distribution front, we continued to consolidate our third party distributors into multi-brand operators. In the fourth quarter, approximately two-thirds of total volumes sold through our third party distribution network were distributed by multi-brand operators.

In the soft drink segment, our focus on our "right fews" strategy continued to pay off. The results of increasing the proportion of our core portfolio on total volumes sold, as well as higher direct sales volume and price initiatives caused an impressive 36% increase in EBITDA per hectoliter comparing '03 with '02. João will comment on that.

And finally, once again we're very pleased to disclose the results from our international operations. The combination of Argentina's turnaround, with the synergies captured during the year, as well as the best practice exchange between the two companies caused Quinsa's EBITDA to more than double.

Talking about Cerveceria Rio, our joint venture with CabCorp in Guatemala, its results surpassed even our most aggressive estimates. We are also very excited with the prospects of our new operations in Peru, Ecuador and the Dominican Republic. All of these divisions will be addressed by Juan.

Before I pass it over to Luiz Fernando let me just comment on our R$200 to R$250 million cost and expenses real savings commitment. We achieved R$156 million of real savings last year, including the negative impact of our hedging policy which dragged around R$99 million of that. Total volumes in the second half of '03 and lower spot average exchange rates were the main factors that offset part of the real savings we were expecting to deliver.

In terms of cost of goods sold on a sequential basis, as anticipated in our last two conference calls, AmBev reported a 3% percent decline in cash COGS per hectoliter. Adjusting for the change in sales mix resulting from higher sales of non-returnable presentations during fourth quarter '03, the sequential decline in cash COGS per hectoliter would have been 4.7% lower in the fourth quarter than in the third quarter.

That all said, we reinforce our confidence that we've established a solid platform for growth and the trust in the powerful combination of our people and our culture to deliver great results in '04. I will now pass it on to Luiz Fernando.

Luiz Fernando, Sales and Distribution Director

Hello everyone. As Brito just mentioned, both the market itself and the competition environment hurt our volumes in the fourth quarter, causing a decrease in the fourth quarter and full year 2003 volumes of 11.6% and 4.7% respectively.

Although our market share bottomed in November reaching our lowest level ever, 62.6%, all the effort and initiatives that we have been implementing since September started to pay off, without compromising profitability. In December and also in January of this year, even being months characterized by a higher participation of the supermarket channel in the total industry volume, the channel on which we hold our lowest market share, we were able to gain 0.6 and 1.1 percentage points sequentially, reaching 64.3%, showing that we are on the right track to come back to our normal 67 to 70% market share range.

As I mentioned in our last conference call, we have sophisticated tools to manage our distribution and execution at the point-of-sale. That said, during fourth quarter we mapped out what were the exactly regions and points of sales where our competitors did gain market share, and then we started taking surgical and precise price actions in those places. Maintaining our commitment to preserve profitability, we concentrated as much as possible price-promotion in our Antarctica Pilsen brand, always targeting very carefully the regions, packagings and channels, everything in order to minimize volumes subject to discounts and maximize the efficiency of our strategies. As a consequence, the impact of these promotions in our net revenues per hectoliter was not significant.

However, we refused to sustain our strategy over price promotions. We prefer to benefit from the excellence of our sales capabilities. In the fourth quarter, two key sales programs have been put in place. The most important one was "Festeja", which lasted from September through December. Involving more than 180,000 points-of-sale, this program proved to be very efficient in order to strengthen AmBev's relationship with its clients and create significant value for both parts. The focus of this program was the reduction of price to consumers implemented by the point-of-sale in exchange for the market campaign to drive footfall. This allowed AmBev to maintain its price to trade and drive at the same time significantly higher volumes, compared of course with point-of-sales that did not participate in the program. The addition margins generated more than offset the impact of higher marketing expenditures.

Having learned the importance of strengthening our relationship with the point-of-sale, we launched a new incentive program to them in order to increase the presence and the execution of our products.

Now, regarding our fourth quarter 2003 performance, on the revenue-management front, although the proportion of Skol in our mainstream segment remained almost stable, the super premium segment increased its stake, representing 6.6% of total beer volumes sold in the quarter. In the full year 2003, Skol's volumes represented 56.4% of total beer volumes sold, a 1.4 percentage point higher compared with 2002.

During the quarter, sales of Skol Beats also continued to increase significantly. Volumes were over five times higher compared to fourth quarter 2002. Antarctica Original, which we launched during second quarter 2003, saw an increase in volumes of 42% year-over-year. Sales of Brahma Light, although still very small, are well ahead of its business plan.

In summary, although the super premium segment has been also negatively affected by the overall environment, its performance has been above the mainstream segment. During the quarter volumes decreased by roughly 9%.

Concerning distribution and execution at the point-of-sale, direct distribution for beer increased by almost 900 basis points compared to the year ago quarter, and more than 5 full percentage points compared to the previous quarter. Direct distribution accounted for 38% of our beer sales volumes and roughly 42% of total volumes.

Talking about our third party distribution, we continue to shift volumes towards multi-brand operators. These operators accounted for 67% of total volumes sold through our third party distribution system. We have already captured benefit from this consolidation, which are mainly caused by a better coordination of our portfolio within the distributors, that now reach point-of-sale as one company and therefore maximizing sales opportunities.

For 2004, we remain focused on this front. We are committed to reach 50% of total volumes sold through our proprietary distribution network by the end of this year, and also to keep converting our distributors into multi-brand distributors. We believe this will assure a perfect alignment of interest concerning portfolio management.

Regarding our sub-zero cooler program, this year we installed more than 73,000 beer coolers and 16,500 soft drink coolers. We ended 2003 with more than 182,000 beer coolers and 37,000 soft drink coolers in the market.

Concerning our beer net sales per hectoliter, it reached R$120 per hectoliter, up 17.7% year-over-year. On a sequential basis, it remained stable. State level tax readjustment in some important regions - Rio de Janeiro, Paraná and Pernambuco, for instance - and the target price reductions for Antarctica Pilsen, were the main reasons that impeded AmBev from benefiting from higher direct sales volumes, higher proportion of Skol brand and the super premium segment in total volumes sold, and the seasonal shift in the sales mix towards non-returnable presentations.

Looking forward, first-quarter net revenues per hectoliter should come down 2 to 3% compared to last quarter. The normalization of the packaging mix, the onetime effect of the overlapping in the PIS/COFINS taxation in the months of February and March, as well as the realignment of the reference price for the ICMS' taxation proposed in Brazil's biggest market are the reasons for this reduction. On the other hand, our revenue management initiatives, as well as the increase in direct distribution should compensate that during the year.

At this time I would like to confirm our commitment to keep our prices in line with inflation. The onetime effect in PIS/COFINS that I have mentioned is related to a discussion of the new PIS/COFINS regulations. Felipe will further detail it. I will now pass it over to Miguel.

Miguel Patricio, Marketing Director

Hello everybody. In our last conference call, we pointed out that the combination of huge marketing disbursements with low prices is not profitable, thus not sustainable in the medium and long run. Since that, what we have been seeing in the marketplace is that our currently main competitor, the one who re-launched its main brand in the middle of last year, started to increase prices to close the gap with our brands. And this is what we really want: to compete by brand preference and not by price.

Although the price gap has fallen sequentially in the last three or four months, it still remains too high at 20 to 22% discount in the 600 ml returnable bottle compared to our main brand, Skol. But within this new discount range, they have already started to lose market share, showing that in spite of all marketing investments that they have made, it has not been enough to continue building share and brand equity.

Concerning our strategy in the quarter, as mentioned in our 3Q03 conference call, we have been more aggressive in terms of marketing… not only in terms of media exposure, but also in terms of the approach we are using… specially in the Antarctica Pilsen brand.

Regarding marketing expenses in the fourth quarter, both the seasonal curve allocation and our more aggressive approach impacted it. Looking ahead, I mean for 2004, we are increasing our marketing expenses, but we've reduced even more our 2004 budget for fixed costs and expenses to fund these additional marketing investments. Now I will pass it over to João.

João Castro Neves, CSD and Nanc Director

Thank you, Miguel, and hello everyone. Before I start explaining the fourth quarter and full year results for the CSD and non-alcoholic non-carbonate results, let me just introduce myself to those ones who don't know me. My name is João Castro Neves and I was appointed to replace Juan Vergara in the CSD and Nanc business.

Once again, we've kept stuck to our strategy to consistently focus on the right fews, concentrating our effort on our higher value added products, few programs in complete synergy with beer, and focus on profitability rather than volume at any costs. Despite the unfavorable environment prevailing in the quarter, which caused the industry and our total volumes to decline 7.7% and 5.1% respectively, our core portfolio volumes declined less than 1%.

As a percentage of total volumes sold, Guaraná Antarctica and Pepsi volumes represented 84.7% in the quarter, a significant increase compared to the 78.2% in the year ago quarter. As a result of that and also reflecting the higher volumes sold through our direct distribution network, 52.4% in the quarter, our net revenues per hectoliter increased to R$68.1, up 5.5% year-on-year. On a sequential basis, higher presence of PET bottles in the package mix negatively impacted our net revenues per hectoliter.

Fourth-quarter 2003 soft drink EBITDA reached R$93.6 million, representing an impressive EBITDA margin of 25.4%. Full year 2003 EBITDA was R$231.4 million or 25% higher compared to 2002. EBITDA margin for the year surged over 19%.

As a result of that, we also should mention about our Nanc division. Gatorade accounted for almost 48% of our total Nanc volumes in the quarter, driving up our net revenues per hectoliter to R$158.3 per hectoliter, or 51% higher than the year ago quarter.

Despite the volume performance, the EBITDA for the segment skyrocketed. EBITDA grew 65.3% reaching R$8.3 million in the quarter, and its margins more than doubled - 25.8%, in the fourth quarter versus 11.8% in the fourth quarter of 2002. On a per hectoliter basis, EBITDA was R$39.2 per hectoliter, over three times higher. I will now pass to Juan, our COO for international operations.

Juan Vergara, COO for International Operations

Good morning everyone. Our international operations results in 2003, with total EBITDA in AmBev totaled R$257 million, were significantly above the previous year's pro forma of R$135 million.

First of all and most important, the outstanding performance of Quinsa, which more than doubled its EBITDA in dollar terms from US$91.5 in 2002 to over US$210 million in 2003. Quinsa obviously is the main contributor to our international results.

Considering our acquisition of an additional 12 million Class B shares of Quinsa, as well as the Company's buyback program, AmBev's economic stake in Quinsa in the fourth quarter averaged 49% closing the year at 49.7%. Today, as a result of Quinsa own buy back programs, AmBev's stake in Quinsa is at 50.1%. Today we will not go into further details of Quinsa, leaving that obviously for Quinsa's management.

Regarding our other countries, I will first highlight the strengthening of our Andean Pact operations. During the fourth quarter, we announced the acquisition of two strategic assets to enter into the Peruvian and Ecuadorian markets, two monopolies with extremely attractive margins. We had announced early in the year the entrance into the Peruvian beer market with a greenfield operation, and since then we set base in Lima with a first class team which has done a great job in paving the way for future introduction of our beer products. Under the management of that team, the beer plant is already under construction, and most important, the acquisition of Embotelladora Rivera's assets, that is the Pepsi bottler in Lima and the north of Peru, we now have not only a great opportunity in the soft drink business but, very important, a very, very competitive distribution system to enter into the beer market.

We have a truly multinational team down there in Peru composed of Brazilians, Argentines, Paraguayans and Venezuelans and, obviously, a lot of very good Peruvian talent. And that team is very rapidly and very successfully implementing AmBev's sale technology best practices, both in our direct distribution operations in Lima, as well as in our third party distributors.

Moving north of Peru, we also announced this last quarter the acquisition of control in Cerveceria SurAmericana in Guayaquil, Ecuador. That was incorporated into AmBev as of December 2, 2003. CerveSur, as it is known, holds a small 6% national share with its brand Biela, but it has a state-of-the-art brewery. We are currently in the process of strengthening our teams in Ecuador, and we expect to begin seeing results by that team very, very quickly.

Last but not least, the Andean Pact, Venezuela. We follow our credo of focus again in 2003 and we decided to focus all our activity and effort in Caracas. As a result of that focus, and a very well designed and extremely well executed marketing and direct sales program we reached in December 2003 our highest ever market share in Caracas, achieving almost 29% of the largest and most important market in Venezuela.

We did learn quite a lot with those results in Caracas, and we believe that not only the exercise continues in Caracas, but it is and it will be replicated in other focused markets throughout Venezuela.

Addressing now our Guatemalan operations, the numbers speak for themselves. After only three months of operation we achieved an official Nielsen 10% market share -- that is countrywide -- and nearly 20% in the city of Guatemala. We sold our first case of Brahva brand only five months earlier, that is in August 2003. And we ended the year with a fantastic coverage, in over almost 90% of the Guatemalan territory. And, very important, that was limited not by the distribution capacity of our fantastic partner's distribution system, but by the capacity of our newly built beer plant, Cerveceria Rio, which was caught completely off guard a volume well, well above our expectations. The Guatemalan operations contributed positively already in 2003 with R$9.1 million to AmBev's EBITDA, posting an amazing - almost benchmark I would say within our operations - margin of almost 42%.

Now inspired by the success of the AmBev/CabCorp formula in Guatemala we recently announced an agreement with Embotelladora Dominica – EmboDom – the Pepsi bottler for the Doinican Republic, who is leader in the soft drinks market in that country and has great, fantastic point of sales coverage and execution. We have acquired 66% of EmboDom and our team is already on the move to build a plant in the Dominican Republic in record time, as well as to implement those best practices which we think can produce results the fastest.

Obviously with these results and with the recent developments, our excitement for our international operations got higher than ever this week, but this is something I will leave for Felipe to comment on.

Felipe Dutra, CFO

Hello everyone. Before we move to the transaction, which by the way we feel very enthusiastic about the assets we will be merging to AmBev, let us conclude the analysis of the fourth quarter results.

Our consolidated EBITDA reached R$1,067 million in the fourth quarter 2003, down 7% compared to the pro forma year ago. The first ever EBITDA decrease this quarter as already mentioned in this conference, is primarily a consequence of lower-than-expected volumes and the impact of our hedging policy on variable costs. As relevant as those issues, I additionally highlight increase SG&A costs in our Brazilian in operations by 40% quarter on quarter. The main reasons for such increase were higher direct distribution and also sales and marketing expense.

In the case of direct distribution costs, the expansion of our proprietary network increased our operational leverage, and as volumes decreased we were penalized by significant fixed costs. In addition, direct distribution costs were also affected by higher fuel prices and also for a higher participation of the on-premise channel in our sales mix. This last effect however, is beneficial for the Company as contribution margins in these channels are the highest ones.

On a per hectoliter basis, direct distribution costs moved from R$15.9 per hectoliter to R$20.9. In absolute terms, it increased from R$133 to R$190 million, representing a 43% increase. Sales and marketing presented, as well, significant increase, moving from R$144 to R$252 million, a 75% increase.

Two main drivers caused the higher expenses. Namely, the advertising campaigns to face higher competition and marketing initiatives which were implemented in the fourth quarter. However, it is very important to mention that our accumulated sales and marketing expenses in 2003 were exactly the same as in 2002. Including the effect of inflation, it indeed decreased in real terms by roughly 9%.

Regarding our current hedging policy, 100% of our hedging related to variable costs, which significantly pressured our margins during 2003, expired as of December 31st. Nevertheless, I remind that malt stocks, which are affected by our hedging policy, takes roughly one to two months to turn, and should still influence the results of our first quarter in 2004. In relation to our debt, the portion exposed to currency fluctuations remains 100% hedged as is our policy.

I would like now to make some comments on the taxation front, and address first the change in the PIS/COFINS taxation structure. In our opinion it brings implicitly a strong support for the flow meters implementation, as we understand that the fixed rate of R$11.37 per hectoliter is more reasonable for the brewers than the proposed fee over gross sales. In the case of AmBev, this new taxation structure for the PIS/COFINS should increase the amount of taxes per hectoliter that we pay, but we are committed to offset this situation through negotiations with both our clients and suppliers who are not subject any more to the PIS/COFINS.

Regarding now the flow meters, the situation is as follows: the IRS supported by the Secretary of Science and Technology, should be publishing in March a checklist to certify the appropriate equipment and suppliers. Then, brewers are requested to implement flow meters in all of their plants within the next six months.

Well, we will move now to the recent transaction we announced last Wednesday. The incorporation of Interbrew's operations in Canada, U.S. and the 30% stake in FEMSA Cerveza is a definite step in our strategy of consolidating the Latin American as well as the Americas industry, and represents a unique value creation opportunity for our shareholders.

Considering the value of the transaction – of US$7.3 billion dollars -- and the projected EBITDA for 2004 of US$743 million, we get an EBITDA forward multiple of 10.1 times. Also, considering Canada alone, if we reason backwards and calculate the free cash flow growth needed going forward to justify the transaction value, we get to a rate of 2.7%, well below the average historical rate for those two years and so of 10.7% as well as our projected figures for the business going forward.

Using all metrics, this deal makes sense for AmBev. Striking such a unique deal at this price in a noncompetitive process was only possible under the very specific circumstances of this transaction. Even though there is no geographic overlap between our operations, the potential of synergies cannot be underestimated. AmBev and Labatt teams have worked together throughout January and February identifying important synergies amounting to €110 million or US$138 million annually to be fully captured by the end of 2006.

Aside from cost synergies, this transaction will also allow for the expansion of the Brahma brand to the world and to create an opportunity, especially in South America, to develop the today under-developed premium and import segments with the sale of Becks and Stella Artois throughout AmBev's distribution network.

The complementary skills of our teams must not be underestimated as well. The Canadian/North American markets are highly sophisticated, which forced the Labatt team to develop skills, process and structures in innovation, marketing and branding. On the other hand, the very volatile environment, competitiveness and the structures of the South American market forced the AmBev team to develop skills and process to achieve the lowest cost in the brewing world, as well as market execution. Top-line value creation arising from Labatt expertise with execution and cost discipline from AmBev is really a powerful combination.

From a financial standpoint, the combination of stable cash flows from North America with the emerging markets growth will enhance our credit profile and financial capability to pursue further value-creation opportunities in the Americas. We do not underestimate the challenges ahead; however, the challenges are not new for us. They were also there are in the Antarctica and Brahma merger as well as in our combination with Quinsa.

In a nutshell, this value creative deal is the definitive step in the consolidation of the Americas and provides AmBev with the best growth platform in the brewery industry. Thank you all. I will now take any questions you might have.

Operator

(OPERATOR INSTRUCTIONS)

The first question is from Luis Carrillo of JP Morgan.

Luis Carrillo

Good morning, gentlemen. Help me understand something to have a better sense on the economics of the deal. You are going to consolidate the Labatt's stake line by line and Labatt used to consolidated FEMSA Cerveza as an equity income. And you are proposing to consolidate your share of the FEMSA's EBITDA above the line. If this is the case, shouldn't you be consolidating also the percentage of that comes with that stake?

And then on a following question, in the direct stake that you have in FEMSA is basically a stake on the net earnings and the equity of FEMSA. And correct me if I am wrong, but you wouldn't get any cash, hard cash, from that unless it is in the form of a dividend or a liquidation of the whole company, but the cash won't be there. Is that right?

Felipe Dutra

First of all, let we give you some -- brief review under the Brazilian GAAP standards. Basically, once we have an investment higher than 20% stake, we start the proportional consolidation line by line. And when and if we get a control we entered into the full consolidation method, which means in the specific case of FEMSA, we will be consolidating 30% proportionally line by line from the P&L as well as the balance sheet. And you are right, the cash flow from the FEMSA business will flow into AmBev through dividends to be paid in the future.

Luis Carrillo

Can we assume then that we shouldn't actually be including that proportion of the EBITDA for valuation purposes, rather than a dividend discount?

Felipe Dutra

The way we see it is based on proportional EBITDA.

Operator

The next question comes from Robert Ford of Merrill Lynch.

Robert Ford

Good Morning, everybody. My first question, Felipe, what is the specific mechanism by which impasses, if they were to come about, would be resolved on the Interbrew Board?

Felipe Dutra

Well, that has to do to with the Interbrew Board. And I'm sure they are more prepared to take this question. However, as far as I know, their shareholders' agreement is based on equal Board seats in governance voting rights. When and if they face a deadlock situation there should be a casting vote to be applied by one of the parties. And this casting vote should be revolving going forward for further deadlock situations, if I correctly understood your question.

Robert Ford

You did, thank you. And then also, as you try to entice a FEMSA deal, what would be the ramifications of dropping Pepsi for Coke?

Felipe Dutra

Well, first of all, the stake we are acquiring in FEMSA is a 30% stake on Cerveza only, which is a business completely separate from the CSD business. And going forward we will be starting our conversations with the Mexicans in order to figure out what are the best alternatives for both companies going forward.

Robert Ford

I understand that, Felipe, but my only position, or my perception is that the status quo of the contract is unlikely to recur, right? So at this particular juncture my perception would be that FEMSA would seek to completely renegotiate its terms with a replacement partner, and they have the option to do that. And I think based on my perception that is what they would seek to do. So they would either sell the beer business entirely, which seems unlikely, or they would seek a comparable position at the table with whatever partner they brought on board. And in that particular situation, given the smaller size of the beer business, it would have to include Coke in order to have a commensurate economic weight, which would have implications for the carbonated soft drink division and your longer-term strategy throughout the Americas.

So I'm just trying to understand, and I know that you may not consider that at all, but if it were to occur, what would be the ramifications? Can you get out of the Pepsi contract? And what type of fallout would we find or what kind of repercussions would there be?

Felipe Dutra

Probably we cannot speculate on different alternatives or outcomes or its consequences from the conversations we will be starting with the FEMSA guys. From our side we are totally committed to Pepsi, and we will be initiating discussions with them next week, as I said.

Robert Ford

Great. Thank you very much

Operator

The next question is from José Yordán from UBS.

José Yordán

Good morning Felipe. Given what's happened to your stock price over the past couple of days, do you envision, or when can you and when do you envision beginning your share repurchase program again?

Felipe Dutra

Hi José. Basically, I think that's a very complex transaction and the market will need some time to fully digest the transaction before we restart our ongoing program of share buybacks. But it is not being discussed at this time.

José Yordán

Are you able to, if you had a board meeting tomorrow to restart it, would you be able to legally because the transaction has already been announced, or not? Are you free to do so if the Board were to vote that way?

Felipe Dutra

I think the right answer is that the Board should give some time for the market to digest the whole transaction. The transaction was disclosed last Wednesday. We had presentations in New York yesterday. we put out a press release earlier today. And we should give the market some more days before we start to analyze this alternative at the Board level, as I said. At the present moment, we haven't discussed this yet.

José Yordán

The only reason I ask, obviously, is because if I understand that it's been less than 72 hours, but it would also give a huge vote of confidence if management is aggressively buying back stock at these levels, it sends a strong signal that the market's reaction is against all rationality. But I got your answer, thanks.

Felipe Dutra

Legally, we will be able starting next week, José.

Operator

The next question comes from Lore Serra of Morgan Stanley.

Lore Serra

I'm actually going to ask some questions about the business. If you look at the guidance you're giving in terms of revenue per hectoliter, you mentioned that 2 to 3% decline in the first quarter versus the fourth quarter level. And I guess if I understood the PIS/COFINS issue, I thought that the probability was that the increase wasn't going to hit you, because on a net basis you could get back more, or at least the amount from suppliers that you lose to the higher fixed rate. So I guess the first question is to clarify if I understood that correctly? And then if so, why it's going down.

The second question is, if I did the math correctly in the Citibank valuation analysis which was on the website yesterday, you are looking at revenue per hectoliter of about R$117.5 for the year, which would be pretty flat from the first quarter level. But you expressed an interest in keeping consumer prices within inflation, so it you could help clarify that, it would be great. Thanks

Felipe Dutra

First of all, during the first quarter this year we will have what we call the transition period from the old PIS/COFINS to the new one. Within this period, we will be paying the new PIS/COFINS level, but we have different implications regarding these tax credits we get from the inputs we acquire here as well as the consequence on distribution and on deferred changes in our value chain.

Then, for the first quarter this year we should be negatively affected by the impact of this new PIS/COFINS, which will drive our net revenues per hectoliter down a little bit. And going forward, this tends to be reversed and the implied net revenues per hectoliter from Citibank's valuation -- they used their own assumptions. And I believe those are reasonable but always investment bankers work with a certain range. And please don't take those net revenues or either other implied assumption in Citibank's valuation as a Company guidance.

Lore Serra

But the source is attributable to AmBev. But let me asK the question in a different way. If you start the year at R$117, is there a reason why you should finish the year at R$117? I guess what we're saying is that those are conservative numbers in your view. I guess what is confusing me is, like I said, the source is AmBev.

Carlos Brito

Hi Lore, this is Brito speaking. As Luiz Fernando mentioned, this first quarter net sales will be hitten by some onetime effects like the PIS/COFINS, like the traditional package mix going back to returnables after the year end time, and also some state taxes that are going up, and we will of course have to look into pricing in order to pass it on to consumers. So that's what we're seeing for the first quarter. What we are saying and considering here in our planning papers to be a onetime hit, and are confident that we can continue with our idea of keeping price within inflation and recovering the shortfall the first quarter with some revenue management initiatives for the other three quarters of year.

Lore Serra

And if I could ask a separate question. You mentioned some of the percentage of your third party distribution as now multi-brand. And if I combine that with you direct distribution which I assume is mostly multi-brand, you're getting to something like 80% on a weighted average basis of multi-brand. That's a lot higher than I understood. And I just wanted to make sure that I wasn't thinking that the year -- what I had understood the year ago number or the current number was something like half that level. And maybe I have gotten the math wrong, or maybe you could just clarify. Has that number come up materially in the past, let's say, six to nine months?

Luiz Fernando

First, let me clarify the 67% of multi-brand volume and third party distributors. In our direct distribution we still have a lot of Antarctica, Brahma and Skol being sold separately since we have still some territories that we divide with some of the operators. So we believe that until the end of this year we’ll have finished or almost finished our direct distribution plan to organize our direct distribution fully to the end of year. So at this time we have 100% multi-brand through direct distribution.

Carlos Brito

I think Lore, though the other thing is I think one misunderstanding could be when we say multi-brand, we also include two–brand distributors. And we do have a range of distributors that are on the way to get to the three brands which is a fully multi-brand distributor. But we are counting that into that percentage, and maybe that is why it is higher than you are having in your prior talks to us.

Lore Serra

Maybe I could ask the question then, what's the comparable figure to the 67% for a year ago level? Maybe when you get a chance, I would appreciate that figure.

Luiz Fernando

Sorry, I don't have this number now. You can call us or we can send it to you through our team here.

Operator

The next question is from Dan Kwiatkowski of Schroders.

Dan Kwiatkowski

I have got two questions. One is related -- very related to Lore's question. Just can you clarify that the reported 2004 revenue per hectoliter will grow in nominal terms? Can you clarify that?

Felipe Dutra

Could you say again please?

Dan Kwiatkowski

Will the reported 2004 revenue per hectoliter grow in nominal terms from what you reporting in 2003, which was R$120?

Felipe Dutra

You are saying the stated the 2003 numbers.

Dan Kwiatkowski

Yes, I stated -- will the reported 2004 show growth in nominal terms from 2003 revenue per hectoliter

Carlos Brito

At this point we're not giving any guidance. What we're saying is that in terms of pricing, we will continue with our long-term view of following inflation with our pricing to consumers.

Felipe Dutra

If I may add to Brito here. We had a price increase back in July, 2003, which means on an average basis, assuming that we have no further price increase at all throughout 2004, there should be an average nominal increase 2004 as compared to 2003.

Dan Kwiatkowski

Ok. Great. The second question is on your SG&A line, which shot up in Q4. Is that going to grow in real terms in 2004 -- in terms of the budget?

Carlos Brito

The competitive environment in Brazil has changed with the re-launch of Schincariol and Nova Kaiser and we already budgeted for next year an increased market expense for next year, which is being funded almost 100% by synergies and savings from within the company. But at this point, given the competitive environment I wouldn't like to comment any further on how much more or totally we are going to be spending this year as compared to last year. But what you saw in the fourth quarter cannot be a good guidance for '04, because of course that was a launching period, and we had to overreact a little bit, and now things are beginning to get back to normal.

Dan Kwiatkowski

Thanks.

Operator

The next question comes from Jack Burgess of Wells Capital Management.

Jack Burgess

Hi. Can you please give us your thoughts on the prospects for regulatory approval of this deal, particularly in Brazil? And whether you've been given any preliminary indications already? And what the timetable might be for a final decision?

Carlos Brito

I think the prospects are very good because the deal that was announced doesn't change any of the competitive scenarios in Brazil as the AmBev merger did. So with AmBev we had a big discussion with the antitrust authority, given that Brahma and Antarctica operated in a similar market, in the same market. But this time, the alliance or the combination of the two companies is a total -- has no overlap. So I don't think there will be any trouble with antitrust authorities this time in Brazil. Of course, the decision is theirs, but that's what we think at this point.

Jack Burgess

And in terms of the timetable?

Carlos Brito

The timetable for the completion of the operation?

Jack Burgess

For you to receive a definitive regulatory approval?

Carlos Brito

We will have to submit by law in 15 days to the antitrust authorities. I think it could be a matter of a couple months. Because again, this time it's not anything of overlapping of operations. It's entirely complementary, so I don't think there'll be a problem.

Jack Burgess

If I may follow up, please. I've read that when AmBev was created in 1999 or 2000, in order to get approval from the Brazilian government to offer that deal you had to make a promise that you wouldn't sell the company for ten years, which of course have not yet elapsed. And some observers are describing your transaction with Interbrew as involving a change of control or sale of the majority of the economic interest in AmBev. And we are wondering whether this doesn't in fact create a problem with the promise you made in 1999 or 2000.

Carlos Brito

Well I have to disagree with your question, because this is not a promise. This was a comment made by Marcel in the middle of the process. And our view is that he’s been entirely adhered to that promise in the sense that we have to differentiate economic interest and shareholders agreement for governance rights. What we see here is that a group of shareholders - Marcel and the other two shareholders – that used to hold 100% of Braco that holds 50% of the governance rights of AmBev. They are now holding 50% of the governance rights in Interbrew, and through that they have 50% -- they continue to have 50% governance rights in AmBev. So I mean, if you go deeper in the rights, which is a way to think about it, the Antarctica’s foundation continues to hold a 50% voting rights, and therefore veto rights. Plus the 25% that comes from Marcel and its shareholders through the Interbrew global alliance, it's 75% in terms of voting rights. So we don't see any change of control in that respect. We see a change in economic interest. And it is also good to say that Marcel in the shareholders agreement with the shareholders and the Brazilian and Belgium families, they have a lock up of 20 years for their shares as for the shareholders agreement, which by the way will be public when the transaction is completed and closed.

Jack Burgess

Thank you.

Operator

Next question is from Greg Haendel of Transamerica Investments.

Greg Haendel

How are you guys doing? I have a question with regards to the debt after the merger. And specifically I am wondering if, first of all there's going to be any structural changes to the foreign or domestic debt that you guys, AmBev, has outstanding? And whether there's an obligation to support this debt from the InterbrewAmBev parent? And also if you guys have thought about the potential of refinancing this debt up to the InterbrewAmBev level, since it would be a cheaper cost of funds.

Felipe Dutra

Well, the new AmBev will have a net debt from the existing operations, which includes Brazil and Latin America, of approximately US$1.1 billion. This involves primarily the two bonds outstanding, $500 million each, a syndicated loan that will be expiring in August this year, and should be renewed. We don't know at this stage which type of structure -- as well as the BNDES loan.

So the stake we are acquiring in Labatt, including Labatt USA and the 30% stake from FEMSA Cerveza, we will have an additional US$1.5 billion debt, which partly is an existing debt from a syndicated loan based on Canadian interest rates, and part is an inter-company loan based on the same market interest rates that, once we close, should be renewed or renegotiated. We would probably maybe using or issuing debt from the Canadian business, which makes more sense considering the cost differences between raising money in Brazil and in Canada. But this Canadian debt should be supported by Canadian cash flow. Right?

Greg Haendel

So if you to refinance some of the debt it's going to be refinanced into the Canadian side? And from what I think you are implying is there are no structural obligations from the InterbrewAmBev parent to actually support that debt?

Felipe Dutra

No.

Greg Haendel

And are there any structural changes to any of the debt with the merger, besides obviously the additional US$1.5 billion in debt coming over from Labatt?

Felipe Dutra

No, no changes at all.

Greg Haendel
Than you very much,

Operator

Our next question is from Mark Greenberg of Invesco.

Mark Greenberg

I have a question relating to the transaction with Interbrew. And I want to find out what was the reason - how was the price set for the amount paid for the common shareholders versus what's being done for the preferred shareholders? Why was the deal not structured to give an offer for the preferred shareholders as well?

Felipe Dutra

I think this question should be raised to Interbrew. That has to do with the MTO, and basically based on the Brazilian corporate law very well-known by everyone, once we have a change in control structure, not necessarily a sale of control, a change in control structure should trigger in the MTO, in which common shareholders are elected to -- or will have the right to sell their shares at 80% of the price controllers got, which in our case here, or in their case -- I mean InterbrewAmBev parent company -- should be the implied price they got from the shares they will be receiving from Interbrew by the implied price based on the closing date.

Mark Greenberg

So I understand that about the different classes of common, but why is nothing being done for the preferred shareholders?

Felipe Dutra

That's not the law. That's not what the law says. I mean, basically there is a difference on preferred shares and voting shares, starting from the fact that preferred shares are elected to receive dividends 10% higher than voting shares, as well as the fact that preferred shares benefit from much better liquidity than the voting shares.

Operator

The next question is from Juliana Rozenbaum of Itaú.

Juliana Rozenbaum

How will AmBev be compensated if FEMSA decides to exercise its right of exit? And how was this price set up in terms of how much FEMSA would pay for the AmBev assets?

Felipe Dutra

There is a pre-agreed formula on FEMSA and Labatt agreement, and that is from the past. I mean, prior to Interbrew had acquired Labatt. And the formula is based on Modelo's multiple and should be calculated on a fair market-price basis by two investment bankers.

In our agreement, once we acquired the 30% stake, and hopefully we will find out alternatives to further enhance our partnership with them. And in the case the FEMSA guys decide to elect -- to call their 30% -- that should be neutral for AmBev since we have an indemnification clause in our agreement in which, if we had to sell our stake for a price lower than the price we paid, we will be indemnified by Interbrew. And the opposite way works the same.

Juliana Rozenbaum

Just one more question. Is the value of the Labatt-FEMSA incorporation established in terms of number of shares to be issued in the capital increase, or is a valuation based on multiples, in the sense that will the factor increase be done at prevailing share prices at the time of the closing?

Felipe Dutra

Let me say something. We worked on this discounted cash flows, and we use different metrics here which includes EBITDA multiple as well as the impact on our EBITDA, being an EBITDA company. Then once we value the combined assets at US$7.3 billion, we first leveraged this new piece of business as much as we could while maintaining an investment grade rating. We understood that US$1.5 billion, as compared to roughly US$600 to US$700 million EBITDA, which gives us a net debt to EBITDA close to 3, was the highest debt level that we could have in this new company. Then, from that, we had to issue additional shares in order to add up the US$7.3 billion market value. And we issued voting and preferred shares based on the currency structure ON and PN shares proportional in our total capital.

Juliana Rozenbaum

But what I'm trying to understand is that if for instance PN shares or ON shares rallied, is the price going to change?

Felipe Dutra

No.

Operator

The next question is from Alex Robart of Santander

Alex Robart

Two questions, just one on the deal and the second on the business in Brazil. A clarification, Felipe, just on the historical growth rates for the last two years on Labatt. You said 10.7%, if I understood that correctly. My number is a little bit different. I'm wondering are you talking EBIT/EBITDA and also taking into account this strike in Montreal last year? Just kind of specifically going forward-looking into '04, pre-synergies what do you think could be a rough range for the EBITDA growth? And is it a top-line-driven idea? Is it cost-driven? Maybe some color, if you could.

Felipe Dutra

Robert, I was mentioning the cash flow generation, not specifically measured by EBITDA. The EBITDA CAGR is roughly 6 %.

Alex Robart

Ok. And again, so I guess when you look out into '04, '05, is there a range that perhaps you could help us out with where you would like to see EBITDA grow pre-synergies, if that's possible? And is it really kind of a top-line idea, or do you think there's room for cost or a combination? Maybe some color on that.

Felipe Dutra

At this stage, Robert, it's very hard for us to come up with any guidance, since we don't know when we will close, then as a consequence, when we will start to capture synergies. But I think you should consider, as I said, that this transaction was calculated based on an implied growth rate of the cash flow generation of only 2.7%, which is extremely low. And you could work with different extensions of growth going forward, and you would get the potential or difference upsides from different interest rates -- sorry, from different growth rates.

Alex Robart

So it's definitely going to be then, in your calculation of cash flow, it's going to be -- it seemed like you said going forward higher than the 10.7%. Is that fair to assume?

Felipe Dutra

The assumptions -- I will leave the assumptions with you. Sorry I cannot elaborate more on that.

Alex Robart

Ok, fair enough. Just turning to the Brazilian business, I wanted to drill into the potential for this idea of fixed costs and expense reduction. I mean, I guess it sounds like you're talking about the potential to do this as related to how much incremental SG&A you're going to be doing in '04, which again relates to the competitive environment.

But is there just kind of an intrinsic amount of costs and expense savings that you can kind of share with us, where you might be able to get that in '04? And obviously R$99 million was the cost of having this hedge last year into the EBITDA. I mean, going into '04, confirming if you could that you're not going to be hedging, and really that seems to be an interesting source for your cost reduction. Are you including that in your numbers? Is it going to be a comparative issue that we will just kind of be able to favorable use for your cost of sales?

Carlos Brito

Alex, this is Brito. When I mentioned that we would be able to, in our planning, in our budget, to offset an increase, it was on the SG&A, it was in marketing money that was going to be invested in the marketplace. Of course, as you said, you are right. We do have the foreign exchange without the hedge this year that will be (indiscernible) so far. And the way we are foreseeing the remaining of the year will be favorable compared to last year.

Plus, we do have productivity gains in 76% of our plants, 4 percentage points over the fourth quarter over last quarter, or year-over-year of 8 percentage points. And that all will add to some savings that we will have internally, plus a zero based budget that will continue to go on. So all of this, or part of this, will fund the marketing money extra that we will have to put behind our brands in the marketplace.

Alex Robart

So just to understand the potential funding here of this marketing is really kind of the production and associated cost reduction here at the cost of sales level, the production-oriented issues. Is that right?

Carlos Brito

Yes, it is production- oriented. But of course because you do have variable cost hedge because of foreign exchange, it's also part of the cost being more favorable this year because the foreign exchange is also helping to fund this marketing expenses.

Alex Robart

Lastly, just a sense of where you think those absolute costs for the inputs, I mean can, malt, might be going this year on average compared to last year.

Carlos Brito

Again we wouldn't like to give any guidance at this point. This year we do have, as always, with commodities we do have some positive trends and some negative trends. As positive trends we have as compared to last year - sugar, corn, malt. On the other hand, we have aluminum on the negative side. So again, it's going to be impossible to forecast. We are trying to be active in having hedged sometimes or be in the spot market when we think it's convenient.

Operator

The next question is from Manuel Ramos of Credit Suisse First Boston.

Manuel Ramos

Hello everyone. I have a quick question. Can you us a breakdown of the US$1.5 billion that you're going to assume? Where is that coming from? Where is that located? How much is Labatt? How much is FEMSA? And if you can also tell us where this is going to be located after you assume it? Is that going to be at the AmBev level?

Felipe Dutra

That's where the debts will be located on Labatt Holdings. That includes proportional debt from FEMSA Cerveza, as well as roughly US$650 million debt existing at the Labatt level. And the remaining is an inter-company loan financed by Interbrew parent company based on market interest rates.

Manuel Ramos

Ok, so at the AmBev level we're going to see only the amount of debt that you currently have, which is close to US$2 billion including the bonds?

Felipe Dutra

Yes.

Operator

The next question is from Mariana Araujo from Fator.

Mariana Araujo

I have two questions. I'd like to understand what comes first, if Interbrew will be paying the 80% tag along for AmBev common shares before or after AmBev issues new shares to buy Labatt.

The second question is the tag along for AmBev common shares will be paid in cash or Interbrew shares?

Felipe Dutra

The tag along rules say that the new InterbrewAmBev will have 6 months starting from closing to structure MTO processes that should be paid in cash.

Mariana Araujo

And you don't known already what comes first, if Interbrew is paid before AmBev issues new shares?

Felipe Dutra

That should be almost a simultaneous process by the closing.

Mariana Araujo

And the closing is -- do you know, do you have any guidance of when it happens?

Felipe Dutra

We expect the closing -- we expect to close as soon as possible. The more optimistic scenario is in July. The more probable scenario will be during the second half of this year.

Mariana Araujo

And the payment will happen six months after that?

Felipe Dutra

No, no, no. Once the MTO is structured that it should be a one month after closing, then the payment will follow I think on an average of three business days before. I will have to confirm with the lawyers, but the payment should happen by the time of the MTO.

Operator

The next question is from Patrick O'Grady of Pactual.

Patrick O'Grady

My question has been answered, thank you.

Operator

The next question comes from Gustavo Hungria of Banco Pactual

Gustavo Hungria

My question is regarding your shareholder structure. After this joint transaction is finished, I would just like to know if there's any intention of the creation of only one class of shares, since the controlling group will have over 60% of the economic interest of AmBev?

Felipe Dutra

Nothing has been discussed on this front, Gustavo.

Gustavo Hungria

I'm sorry?

Felipe Dutra

We haven't discussed this. You are welcome.

Operator

The next question is a follow-up question from José Yordán of UBS.

José Yordán - UBS - Analyst

I have one follow-up on the business and one on the deal. I will start with the business. I know you were asked about revenue per hectoliter before and it didn't seem to me like the question that Dan

Kwiatkowski had was really answered. I think what we all understand is that the average is going to rise for sure because of the increase happening midway through last year in prices.

But I mean, I think his question and mine are that, versus the R$120 is it fair to assume that the average for 2004 will be above R$120 considering the continuing changes in mix towards direct distribution? Will that -- the positive effect of that be somehow offset by all the tax changes that are happening or anything else?

The question is, will revenue per hectoliter be above R$120 for this year or not? In our best estimation, is it fair to assume that it should be slightly above?

Carlos Brito

At this point again, I'm sorry about that, I wouldn't like to give any guidance. All we can say at this point is that first quarter we will have this onetime effect that we have already explained the fact of the PIS/COFINS and the package mix coming back towards returnables.

We are pretty sure we will be able to recover that during the remainder of the year. And we also stated that we're going to stick to our long-term policy of keeping prices with inflation. Other than that, we wouldn't like to give any further guidance at this point, given also the competitive environment in which we are today in Brazil.

Jose Yordán

Ok and then on the -- just to follow-up on the new shares that you are issuing to Interbrew in exchange -- that are being issued to Interbrew. I understand that there's a twenty-year lockup. Does that pertain to both the ONs and the PNs shares that they are receiving or only to the ONs?

Felipe Dutra

The lock up is at the Interbrew Stiching level, and that involves the lockup from Braco's former shareholders and the Belgian families on the shares they own (indiscernible) that as a consequence, they share this (indiscernible) on Interbrew, not on the shares owned by Braco on AmBev level.

José Yordán

I'm sorry, I'm referring to the shares of AmBev that Interbrew is receiving in exchange for the Labatt assets. Are those -- both of the classes of shares they are receiving, are both of those locked up for 20 years?

Felipe Dutra

No, those are Braco shares to be held by Braco, and the shares are not locked. They belong to Braco, which is controlled by Interbrew.

José Yordán

Ok, maybe we can do it off-line. Do they also -- I'm a little confused now about the cash nature of the MTO, because I thought you mentioned yesterday that it wasn't a certainty that it would be in cash, and that the CVM would have to rule on whether it would be a cash or share tender offer, and that you would abide by that. Is there a change from --?

Felipe Dutra

That's a process to be started from InterbrewAmBev level and not involving AmBev, us, as the company. And the standard procedure is to pay in cash. And that's the scenario I know that they are working.

Operator

The next question is from Uta Sangcar with Northwestern Mutual.

Uta Sangcar

You said, according to Brazilian corporate law you mentioned that you don't need to extend the offer to preferred shares. But looking at the structure, the controlling shareholders are getting 78% premium, and also you are paying about 11.5 times to the Labatt assets, which is higher than the market value. So it looks like preferred shareholders might have been compromised here. Do you have any explanation on that?

Felipe Dutra

I think we share completely different views, starting from the valuation of the Labatt piece. Unfortunately, only the time will tell who is wrong in our case here.

Uta Sangcar

But from a preferred share point of view, there are questions that we have been compromised somehow, because of -- it looks to me like a financial transaction where the value of the company has been shifted. So that's how I look at the whole transaction.

Carlos Brito

Just to add something to what Felipe already mentioned. I think when you look at a transaction of this size, you have to look at the whole and not at the pieces. Again, the Braco shareholders are getting a premium for their exchange of shares, and that's because of the control piece attached to it. On the other hand, AmBev, the company and its shareholders, is gaining access to the North American assets of Labatt, at a price and way of payment that would never be available in the market if it weren't in the whole of this transaction. So that's a wise way to look at it. And it is a good deal to all stakeholders.

Operator

Unfortunately, due to time constraints we have time to take one last question. Our last question is coming from Rodrigo Fonsceca of ARX Capital Management.

Rodrigo Fonsceca

My question -- I have one question and one follow up. One question is about the new orientation of the company. Is there any chance that you see a change in the equity stock options program? For instance, can you discard the possibility of executives to receive stock options on Interbrew instead of AmBev?

And also, how does it work with executives that have stock options on ordinary shares? Will they be able to participate in the tag along offer or not? So these are my questions.
And just to follow-up on Juliana's question, your answer made me confused here. I understand that the transaction with Labatt, it’s price is based on the number of AmBev shares and not on an amount in dollars. So if the AmBev stock goes down your acquisition price also goes down. But I was confused by your answer so I just wanted to clarify that.

Felipe Dutra

Starting from the second question, I mean the number of shares to be issued by AmBev was based on an average price of AmBev shares, and the number of shares to be issued is fixed. Then, depending on the share price of -- AmBev share price going forward, you might use different prices and get different values. However, we have to set a price, and the price was set based on, I think, US$24.85 per ADR. And currently the share price is lower.

Regarding the stock ownership plan, instead of stock option plan, in which we have to pay for the shares and keep those shares for a minimum of five years, those are AmBev's PN or preferred shares. And management will keep its preferred shares on AmBev going forward in order to assure the perfect alignment between management and AmBev shareholders.

Operator

Thank you, that will conclude our question-and-answer session. I'd like to turn the floor back over to Mr. Brito for any closing comments.

Carlos Brito

Thank you everyone. I'd like to just say that we are very excited about the new AmBev. We think now the big dream is coming true. The name of our company has been AmBev from the very beginning, but that didn't mean a whole lot, just a dream when we started, because we were just in Brazil. Now we're going from Alaska all the way to Argentina. And I think that's a big dream and with a terrific upside for all the shareholders and all the employees of the company. Thank you very much. I will see you next quarter.

Operator

Thank you all for your participation. That does conclude your teleconference. You may disconnect your lines at this time. Have a great day.