

Announcement: Moody's: Ambev's ratings unaffected by Brazil's change in outlook to negative

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New York, May 31, 2017 -- Moody's Investors Service ("Moody's") says that Ambev S.A. ("Ambev")'s Baa3 rating and stable outlook are not affected by the change in outlook on Brazil's government bond rating to negative from stable on May 26. Please see "Moody's changes outlook on Brazil's Ba2 issuer rating to negative from stable" on moodys.com for more information.

RATINGS RATIONALE

Ambev presents a dominant market position in Brazil, strong execution capabilities and strict cost control, all of which allowed the company to withstand the recent downturn in the local economy, for the past two years, and still maintain exceptionally strong credit metrics, solid profitability levels, ample liquidity, and modest leverage. Additionally, the limited reliance on the local banking system for funding, a relevant portion of assets and cash generation outside Brazil, and relevance to controlling shareholder Anheuser-Busch InBev (ABI) (A3 stable), help to outweigh Ambev's links with the Brazilian economy and could eventually result in a higher than two notch difference to the sovereign bond ratings.

Ambev's Baa3 rating is supported by its scale as one of the world's largest brewers, present in 19 countries, enjoying leading positions in large markets including Brazil and Canada, and with a vast portfolio of brands of alcoholic and non-alcoholic beverages. The company benefits from diversification and brand recognition, while scale translates into higher bargaining power with suppliers, geographic and product diversity mitigates cash flow volatility arising from weather events or market ruptures in specific regions.

Constraining the ratings are the subdued volume growth observed in Brazil, the commodity-like nature and volatility of input costs and Ambev's reliance on effective hedging strategies. Also, there is a likelihood of continued high dividend payouts to the controlling shareholder, especially in a moment where ABI presents a very high leverage. The rating or outlook could also suffer negative pressure if Ambev's overall operating performance were to deteriorate due to greater than expected volatility in any of its major markets, or if the company's leverage were to significantly increase due to a change in capital structure or a debt-financed acquisition. Quantitatively, a downgrade could be considered if EBITA/Interest fell below 4.0x or debt to EBITDA increased to above 3.5x on a sustainable basis (all metrics according to Moody's standard adjustments and definitions).

The stable outlook reflects the company's exceptionally strong credit metrics, dominant position and operational resilience, which, along with other characteristics, help to outweigh its links with the sovereign environment, where it generates roughly 60% of its EBITDA. At the same time, we expect Ambev to benefit from a gradual improvement of the Brazilian economy after two years of recession. We also expect Ambev to benefit from the diversity of its portfolio and geographical footprint, and that it will maintain a conservative financial management and strict cost-control.

Headquartered in São Paulo, Brazil, Ambev S.A. operates in the production, distribution and sales of alcoholic and non-alcoholic beverages in 19 countries across the Americas. During the twelve months ended March 2017, Ambev reported net sales of BRL 45.3 billion (USD 13.7 billion) with adjusted EBITDA margin of 42.3%. Ambev is the largest brewer in Latin America, in addition to being PepsiCo's largest bottler. Its large portfolio includes well-known brands, such as Skol, Brahma, Stella Artois, Beck's, Budweiser, Antarctica, Quilmes, Bud Light, Corona among others, as well as Gatorade, Pepsi Cola, H2OH!, Lipton Ice Tea and Seven UP, sold under license from PepsiCo. Since 2004, Ambev has been controlled by Anheuser-Busch InBev (ABI) (A3 stable), a leading global brewer and one of the world's top five beverage producers.

The principal methodology used in these ratings/analysis was Global Alcoholic Beverage Industry published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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