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CREDIT OPINION

7 April 2020

Update

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RATINGS

Ambev S.A.

Domicile	Sao Paulo, Brazil
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Erick Rodrigues 55-11-3043-7345
VP-Senior Analyst
erick.rodrigues@moody's.com

Marianna Waltz, CFA 55-11-3043-7309
MD-Corporate Finance
marianna.waltz@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

Ambev S.A.

Update to credit analysis

Summary

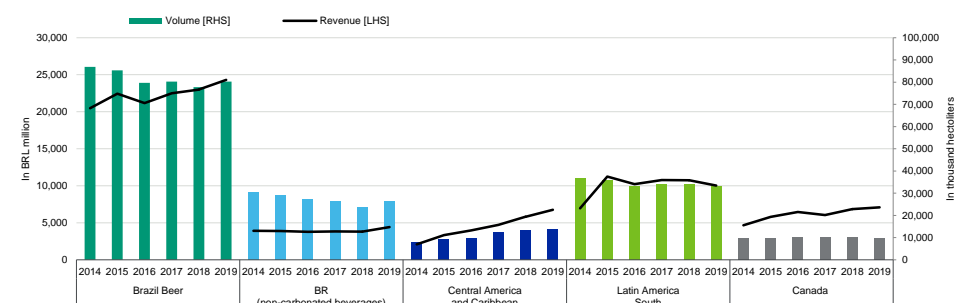
[Ambev S.A.](#)'s (Ambev) Baa3 rating is supported by its scale as one of the world's largest brewers, presence in 18 countries, leading positions in markets including Brazil and Canada, and vast portfolio of brands of alcoholic and nonalcoholic beverages. The company benefits from its diversification and brand recognition, while its scale translates into a higher bargaining power with suppliers. Moreover, its geographic and product diversity mitigates cash flow volatility arising from weather events or market ruptures in specific regions.

The company's dominant market position in Brazil, strong execution capabilities and strict cost control allowed it to withstand the recent downturn in the local economy and still maintain exceptionally strong profitability and credit metrics. In addition, Ambev's limited reliance on the local banking system for funding, its generation of a significant portion of assets and cash outside Brazil, and its importance to the controlling shareholder [Anheuser-Busch InBev SA/NV](#) (ABI, Baa1 stable) help offset the negative effect of the company's links with the Brazilian economy.

Constraining Ambev's rating are the volatility in its commodity-like input costs and its reliance on effective hedging strategies. Also, there is a likelihood of continued high dividend payouts to its controlling shareholder ABI.

Exhibit 1

Brazil beer benefits from consumer fundamentals, but the coronavirus outbreak will reduce volumes, specially on-trade, in 2020



Sources: Ambev S.A.'s financial statements and Moody's Investors Service

In 2020, Ambev's metrics will remain robust for the rating level, despite the upcoming challenges stemming from the COVID-19 outbreak. We believe there will be a considerable drop in on-trade volumes for Beer Brazil because of closures and shut-downs which caused daily financial volumes in Brazil's bars and restaurants to drop as much as 70% in the

third week of March 2020. As a consequence of lower volumes and challenging pricing environment we currently we work with a 7.6% drop in EBITDA to BRL20.5 billion in 2020.

Credit strengths

- » Large scale, geographic diversification and brand recognition
- » Sound margins and healthy credit metrics
- » Leading market positions in Brazil and Canada, with strong execution capabilities and strict cost control

Credit challenges

- » Rating constrained by the [Government of Brazil's](#) (Ba2 stable) ratings
- » High dividend payouts to ABI

Rating outlook

The stable rating outlook reflects Ambev's exceptionally strong credit metrics, dominant positions and operational resilience, which, along with its other characteristics, help outweigh its links with the sovereign, where it generates roughly 56% of its EBITDA. At the same time, we expect the company to benefit from a gradual improvement in the Brazilian economy after an economic recession. We expect Ambev to benefit from the diversity of its portfolio and its geographic footprint, and maintain conservative financial management and strict cost control.

Factors that could lead to an upgrade

A rating upgrade would depend on an upgrade of Brazil's sovereign rating and Ambev's continued steady and strong credit metrics.

Factors that could lead to a downgrade

Ambev's rating or outlook could face negative pressure if its overall operating performance were to deteriorate because of the greater-than-expected volatility in any of its major markets, or if the company's leverage were to significantly increase because of a change in its capital structure or a debt-financed acquisition. Quantitatively, a downgrade could be considered if its EBIT/interest fell below 4.0x or debt/EBITDA increased above 3.5x on a sustained basis (all metrics are according to Moody's standard adjustments and definitions).

Key indicators

Exhibit 2

Ambev S.A.

USD Millions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Net 12-18 Months Forward View
Revenue	16,224.6	14,251.5	13,145.9	15,003.7	13,836.9	13,358.9	9,000 - 11,000
EBITA Margin %	43.3%	43.2%	36.8%	36.1%	35.9%	33.4%	30% - 33%
RCF / Net Debt	-99.9%	-259.3%	9810.0%	-158.3%	-201.4%	-185.9%	--
Debt / EBITDA	0.4x	0.5x	0.4x	0.3x	0.3x	0.3x	0.2x - 0.3x
EBIT / Interest Expense	12.2x	13.2x	15.1x	15.8x	12.3x	14.6x	13x - 15x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

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.moody's.com for the most updated credit rating action information and rating history.

Profile

Headquartered in São Paulo, Brazil, Ambev S.A. (Ambev) engages in the production, distribution and sale of alcoholic and nonalcoholic beverages in 19 countries across the Americas. In the 12 months ended December 2019, Ambev reported net sales of BRL52.6 billion (\$13.3 billion), with an adjusted EBITDA margin of 41.3%.

Ambev is the largest brewer in Latin America, in addition to being [PepsiCo, Inc.](#) (A1, RUR)'s largest bottler. Its large portfolio includes well-known brands, such as Skol, Brahma, Stella Artois, Beck's, Budweiser, Antarctica, Quilmes, and Corona among others, as well as Fusion, H2OH!, Lipton, Gatorade and Do Bem. Since 2004, Ambev has been controlled by Anheuser-Busch InBev SA/NV (ABI), a leading global brewer and one of the world's top five beverage producers.

Detailed credit considerations

Large scale, diversification and brand recognition

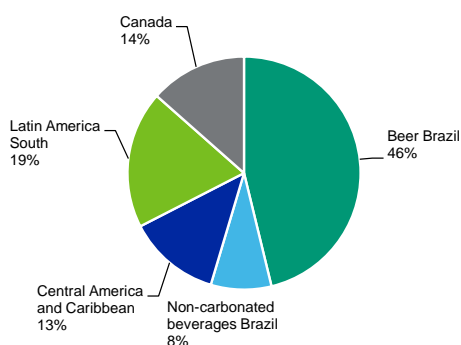
Ambev is present in 18 countries and has a vast portfolio of brands of alcoholic and nonalcoholic beverages, benefiting from scale, diversification and brand recognition. While its scale translates into higher bargaining power with suppliers, its geographic and product diversity mitigates the cash flow volatility arising from weather events or market ruptures in specific regions.

In addition, Ambev has a leading position in most of its operating markets, including Brazil, where we estimate a 66% market share, and Canada. Also, the company's well-developed and sophisticated distribution structure — the delivery of its products to large retail stores and small mom-and-pop stores, as well as pubs, bars and restaurants — is a factor that contributes to an important competitive advantage. We regard Ambev's cost advantages as structural and hardly replicable by competitors in the medium term, which will ultimately mitigate the margin volatility resulting from fiercer competition from existing competitors in key markets. These cost advantages represent entry barriers for new competitors.

Ambev is also present in many South American countries, with leading market shares in Argentina, Bolivia, Paraguay and Uruguay, and the second-largest market share in Chile. Mainstream beers in the region include Quilmes and Patricia. In Central America and the Caribbean, the company's footprint includes El Salvador, Cuba, Guatemala, Dominican Republic and Panama.

Exhibit 3

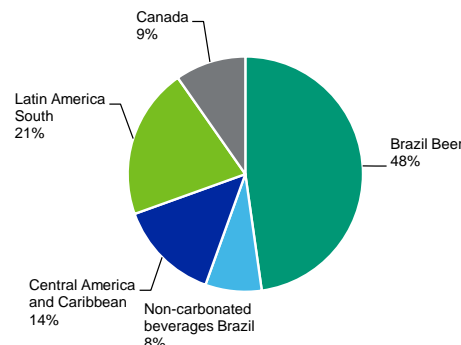
Revenue is diversified across the Americas, with Beer Brazil being the most relevant source of revenue
As of December 2019



Sources: Ambev S.A.'s financial statements and Moody's Investors Service

Exhibit 4

Brazil Beer's EBITDA contribution is even more significant, because it delivers the highest margins of all segments
As of December 2019



Sources: Ambev S.A.'s financial statements and Moody's Investors Service

As for brand recognition, we believe Ambev's marketing and innovation capabilities offer a distinct advantage over competitors and help mitigate lower alcoholic and nonalcoholic consumption during downturns. The sponsorship of important events, such as the FIFA Soccer World Cup, the annual Rio de Janeiro Carnival and Brazil's national soccer championships, exemplifies strong partnerships and brand activation capabilities. Ambev has also pursued the introduction of new premium products to improve its sales mix and help preserve margins. Ambev recently rolled out value packaging for its mainstream beers and a 'value' beer brands (Nossa, Magnifica

and Legítima brands in the northeast region of Brazil) to close the portfolio gap toward more value-oriented customers. Finally, the company is also pursuing cost-saving initiatives, such as increasing the share of returnable bottles in its sales mix.

On the digital front, a significant development came with the launch of the Zé Delivery app, a platform that connects beverage retailers and consumers. In 2019, the app was responsible for over two million orders and will continue to ramp-up with an increased acceptance by users, both retailers and consumers.

The coronavirus outbreak creates uncertainty over the Brazilian beer market in 2020

We believe there will be a considerable drop in on-trade volumes for Beer Brazil because of closures and shut-downs influenced by the corona virus outbreak. Although the impacts for the year are still uncertain, the current disruptions have caused overall daily financial volumes in Brazil's bars and restaurants to drop as much as 70% in the third week of March 2020 in Brazil. For the full year we believe there could be a 10% drop in Beer Brazil volumes if activity gradually returns to more normalized levels going into the second half of the year. Off-trade volumes will be much less impact during the crisis, because supermarket sales have been somewhat resilient. The recent crisis will help to accelerate usage of online/mobile based applications and delivery services, although the volume is still small for the segment, this is an important gauge of changing consumer habits and the sales mix on digital platforms is more skewed toward higher-margin premium brands

We view Ambev's large scale, nationwide footprint and online/digital presence as import tools to mitigate such coronavirus-imposed disruptions.

Ambev's strong and well-known brands have historically enabled the company to pass through cost increases, with only a temporary impact on the market share. In the long run, this efficient cost management will continue to be key for its profitability. Currently, with the offering of low-cost local brands in the Northeast region of Brazil, its portfolio has a better mix to face constrained consumer environments. The long-term outlook for the Brazilian beverage segment remains positive, given the low penetration rates of alcoholic beverage consumption and the long-term outlook for higher average disposable income.

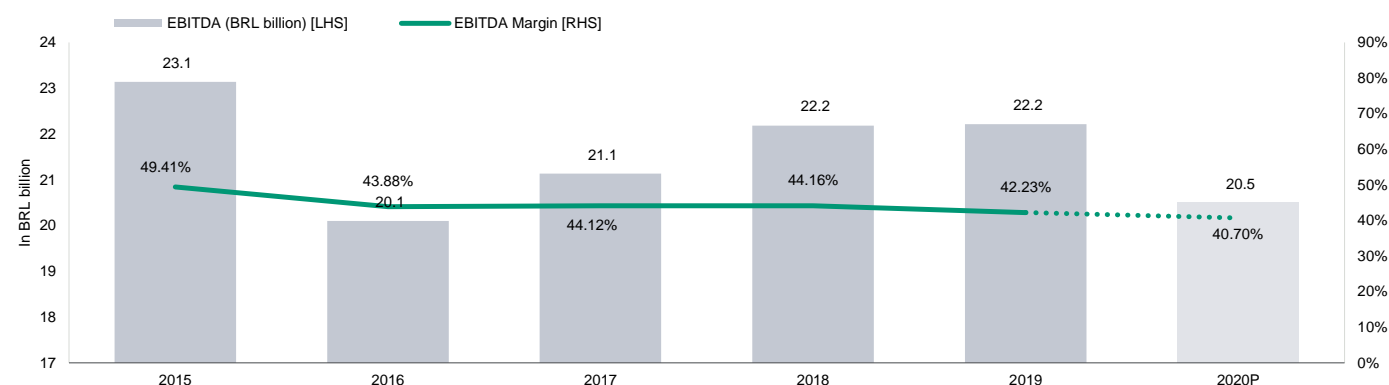
Sound margins and healthy credit metrics

Despite the volatility in commodity-like input costs, Ambev has become cost efficient over time, reporting relatively stable operating margins. This performance is mainly because of the company's (1) ability to pass through costs to the final consumer; (2) strictly established internal processes and cost-control initiatives; and (3) ability to fully hedge its raw material needs 12 months ahead, thereby avoiding sharp input price spikes.

In 2019, Ambev posted an adjusted EBITDA margin of 42.2% and an adjusted leverage ratio of 0.3x. Given the current disruptions relating to the corona virus outbreak, we are considering a EBITDA drop of 7.6% to BRL20.5 billion and a reduction in EBITDA margin to 40.7%.

Exhibit 5

EBITDA grew on higher volumes, but margins remained strained in 2019 because of higher commodities and foreign-exchange hedges



Sources: Ambev S.A.'s financial statements and Moody's Investors Service

Enhanced positions in Latin and Central America and the Caribbean

Ambev has strengthened its position in Latin and Central America and the Caribbean over time, mainly as a result of acquisitions in the region. Although this has increased Ambev's footprint in the region, Brazil continues to be its largest market, representing 46% and 48% of revenue and EBITDA, respectively, for full-year 2019. In December 2016, in a share swap, Ambev transferred its operations in Colombia, Peru and Ecuador to ABI and received in exchange the operations of SABMiller in Panama. The swap led to a 27% increase in Ambev's Caribbean volume. Currently, the greatest challenge in the region is the Argentine market, which comprises half of Latin America South's sales. Because of high inflationary pressures and a weak consumer environment, volume has dropped. However, the portfolio of brands in the country remains robust, with Brahma being the number one beer and Quilmes number two, and with the addition of more high-end brands. Despite inflationary pressures, Ambev is able to pass through most of the cost increases with some delay.

The company's expansion started in 1994, with the internationalization of the Brahma brand and business combinations, acquisitions and strategic alliances. Currently, the company operates in Argentina, Bolivia, Chile, Dominican Republic, Panama, Paraguay and Uruguay, in addition to other countries in Central America and the Caribbean, with leading positions (number one or number two in the market) in all the markets in South America. Such diversification helps mitigate regional vagaries and economic downcycles. In addition, Ambev's strong marketing expertise ensures market share gains and sales volume expansion, which contribute to an overall stable operating performance.

Ambev's rating is above Brazil's government bond ratings

Ambev's Baa3 foreign-currency rating is above Brazil's Ba2 issuer rating, which is granted only under exceptional circumstances when an issuer's fundamentals are stronger than those of the sovereign. In the case of Ambev, this is illustrated by its exceptionally strong credit metrics; ample liquidity; limited reliance on the local banking system for funding; significant cash generation outside Brazil, which is sufficient to service the company's small foreign-currency debt; and importance to the controlling shareholder ABI. These factors outweigh Ambev's links with the Brazilian economy.

High dividend payout to ABI

Ambev is a public company, with shares traded on the São Paulo Stock Exchange and the New York Stock Exchange. ABI is Ambev's largest and controlling shareholder, holding indirectly — through two subsidiaries, IIBV and AmBrew — 61.9% of the company's voting shares. The company is governed by a shareholder agreement signed among IIBV, AmBrew and Fundação Zerrener. Fundação Zerrener holds 9.6% of Ambev's voting shares.

Ambev is a key subsidiary of ABI, having historically accounted for around 30% and 45% of its consolidated revenue and EBITDA, respectively, and representing an important source of funding to its parent, through historically high dividend distributions (BRL8.7 billion on average over the past four years). The dividends to ABI contribute to its leverage reduction target. ABI's Moody's adjusted gross leverage was 5.2x as of 2019. We expect ABI's leverage, as measured by debt/EBITDA (including Moody's adjustments), to moderate over the next two years to below 4x as of year-end 2021. Accordingly, we expect Ambev's dividend payments to ABI to remain high.

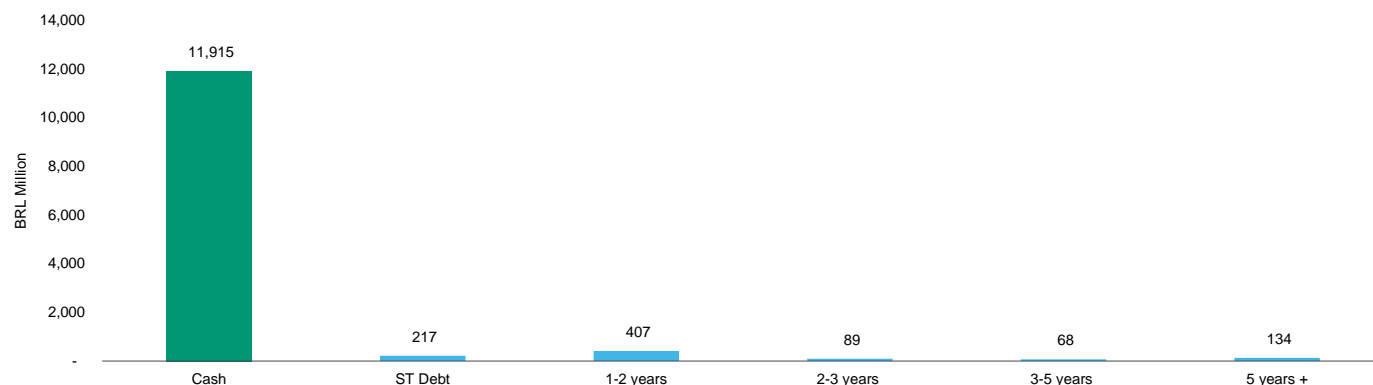
Liquidity analysis

Ambev has a strong liquidity profile for its current level of operations and, as of December 2019, its cash and equivalents amounted to BRL11.9 billion, sufficient to cover its reported total debt (excluding leasing) by 13x.

Exhibit 6

Debt amortization schedule

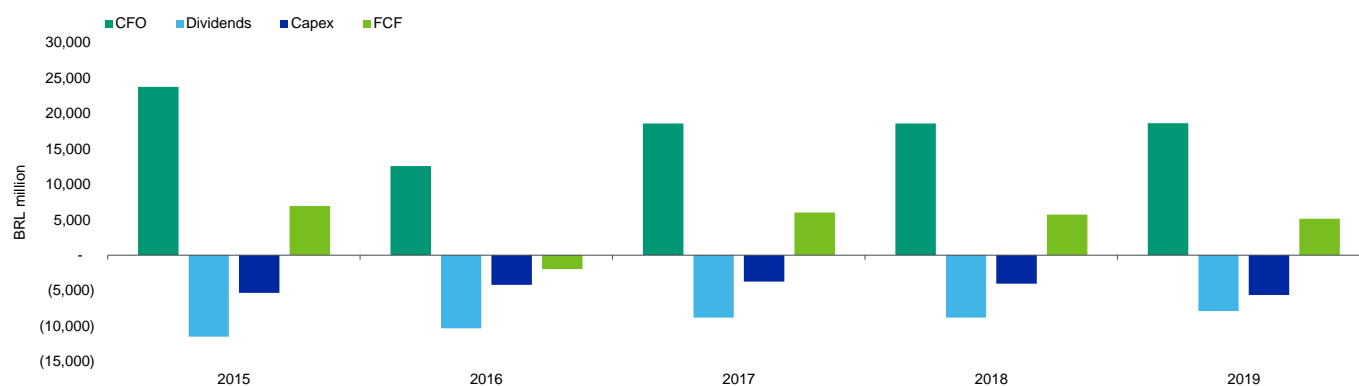
As of December 2019



Sources: Ambev S.A.'s financial statements and Moody's Investors Service

Ambev's solid liquidity is further supported by its robust cash from operations, which amounted to BRL18.6 billion for full-year 2019, and when added to its cash position, was more than enough to meet its capital spending needs of BRL5.6 billion and dividend payments of BRL7.8 billion for the same period.

Exhibit 7

Ambev's metrics are supported by a robust cash flow, enough to meet its capital spending needs and dividends

Sources: Ambev S.A.'s financial statements and Moody's Investors Service

Methodology and scorecard

Ambev's scorecard-indicated outcome under our Alcoholic Beverages Methodology was A2, four notches above the assigned rating, reflecting the company's very strong credit metrics, while the assigned ratings are primarily constrained by Brazil's sovereign ratings. Prospectively in the next 12-18 months, we expect the company's metrics to remain strong for the rating category.

Exhibit 8

Rating factors

Ambev S.A.

Alcoholic Beverage Industry Grid [1][2]

Current
FY 12/31/2019Moody's 12-18 Month Forward View
As of 3/30/2020 [3]

Factor 1 : Scale (15%)	Measure	Score
a) Revenue (USD Billion)	\$13.4	Baa
Factor 2 : Business Profile (32.5%)		
a) Diversification and Exposure to Riskier Markets	Ba	Ba
b) Category / Brand Strength and Diversification	A	A
c) Global Industry Position	A	A
d) Innovation, Distribution and Infrastructure	A	A
Factor 3 : Profitability (7.5%)		
a) EBITA Margin	33.4%	A
Factor 4 : Leverage and Coverage (30%)		
a) RCF / Net Debt	-185.9%	Aaa
b) Debt / EBITDA	0.3x	Aaa
c) EBIT / Interest Expense	14.6x	A
Factor 5 : Financial Policy (15%)		
a) Financial Policy	A	A
Rating:		
a) Indicated Outcome from Scorecard		A2
b) Actual Rating Assigned		Baa3

Measure	Score
\$9 - \$11	Baa
Ba	Ba
A	A
A	A
A	A
30% - 33%	A
--	Aaa
0.2x - 0.3x	Aaa
13x - 15x	A
A	A
	A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2019.

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
AMBEV S.A.	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured -Dom Curr	Baa3
NSR Senior Unsecured	Aaa.br
PARENT: ANHEUSER-BUSCH INBEV SA/NV	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
Bkd Senior Unsecured	Baa1
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

Appendix

Exhibit 10

Peer snapshot

Ambev S.A.

	Ambev S.A. Baa3 Stable			Carlsberg Breweries A/S Baa2 Stable			Coca-Cola FEMSA, S.A.B. de A2 Stable			Kirin Holdings Company, Limi A3 Stable			Heineken N.V. Baa1 Stable		
(in USD millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenue	\$15,004	\$13,837	\$13,359	\$9,305	\$9,213	\$9,903	\$9,716	\$9,494	\$10,021	\$14,040	\$14,828	\$15,007	\$24,415	\$26,558	\$26,833
EBITDA	\$6,620	\$6,111	\$5,512	\$1,944	\$2,100	\$2,162	\$1,971	\$1,987	\$2,072	\$2,797	\$2,727	\$2,447	\$5,798	\$6,124	\$6,219
Total Debt	\$2,034	\$1,782	\$1,479	\$5,511	\$5,298	\$5,307	\$4,615	\$4,435	\$4,065	\$5,594	\$5,105	\$5,928	\$21,890	\$20,362	\$20,777
Cash & Cash Equiv.	\$3,125	\$2,961	\$2,962	\$497	\$558	\$856	\$959	\$1,205	\$1,531	\$1,428	\$1,578	\$922	\$2,932	\$3,319	\$2,044
EBITDA Margin	36.1%	35.9%	33.4%	14.0%	16.0%	15.8%	15.0%	15.8%	15.9%	15.4%	14.2%	12.3%	16.9%	16.6%	17.0%
EBIT / Int. Exp.	15.8x	12.3x	14.6x	4.1x	7.5x	9.1x	5.8x	5.4x	6.0x	20.8x	19.4x	19.7x	5.7x	5.3x	6.4x
Debt / EBITDA	0.3x	0.3x	0.3x	3.0x	2.4x	2.5x	2.4x	2.3x	2.0x	2.0x	1.9x	2.4x	3.6x	3.4x	3.3x
RCF / Net Debt	-158.3%	-201.4%	-185.9%	19.6%	28.0%	28.6%	26.3%	33.1%	49.0%	37.0%	46.6%	27.9%	19.8%	20.3%	19.3%
FCF / Debt	89.4%	82.9%	86.2%	12.7%	18.1%	15.6%	3.0%	6.0%	20.9%	13.8%	9.7%	0.9%	6.0%	7.4%	4.6%

All figures and ratios are calculated using Moody's estimates and standard adjustments. According to the most recently published last-12-month financial results. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted debt breakdown

Ambev S.A.

(in USD Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Debt	1,023.9	910.5	1,658.0	770.2	1,058.8	761.4
Pensions	661.0	561.6	656.8	696.6	604.7	672.3
Operating Leases	49.1	44.5	40.0	543.3	0.0	0.0
Non-Standard Adjustments	739.5	1,220.3	178.2	24.3	118.5	45.5
Moody's-Adjusted Debt	2,473.4	2,736.9	2,533.0	2,034.5	1,782.0	1,479.2

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted EBITDA breakdown

Ambev S.A.

	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
(in USD Millions)						
As Reported EBITDA	7,683.7	6,443.7	5,372.4	5,877.5	5,321.5	4,820.6
Pensions	1.7	0.7	0.9	-0.2	-1.0	0.2
Operating Leases	18.5	17.9	12.5	188.2	0.0	0.0
Unusual	293.5	580.5	380.8	553.3	790.4	685.7
Non-Standard Adjustments	-7.4	-0.9	1.4	1.0	-0.3	5.7
Moody's-Adjusted EBITDA	7,990.1	7,041.9	5,768.1	6,619.8	6,110.6	5,512.2

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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Contacts

Erick Rodrigues
VP-Senior Analyst
erick.rodrigues@moodys.com

+55.11.3043.7345

Patricia I Maniero
Associate Analyst
patricia.maniero@moodys.com

+55.11.3043.6066

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