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CREDIT OPINION
6 April 2021

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.

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Ambev S.A.

Update to credit analysis

Summary

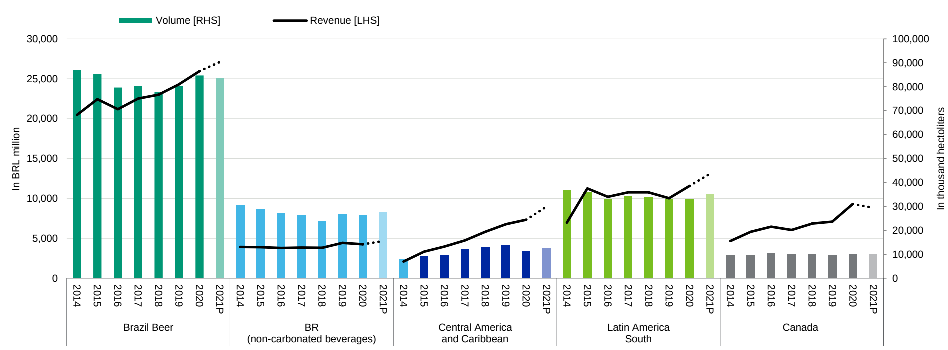
Ambev S.A.'s (Ambev) Baa3 rating is supported by its scale as one of the world's largest brewers, presence in 18 countries, leading positions in markets including Brazil and Canada, and vast portfolio of brands of alcoholic and nonalcoholic beverages. The company benefits from its diversification and 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-linked 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

After a robust volume growth in 2020, Beer Brazil faces a high comparison base in 2021; other regions continue to show gradual improvement



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

In 2021, Ambev's metrics will remain robust for the rating level, but we expect further increase in costs, driven by foreign exchange and commodity prices. For Ambev's main segment, Beer Brazil, we expect volumes to drop 1.5% with a strong growth in the first half of 2021, followed by lower volumes in the second half of the year because of the comparison base with 2020. The Q3 and Q4 2020 volumes benefited greatly from corona voucher government aid to consumers, which we do not expect to repeat in Q3 and Q4 2021. We expect Ambev's average prices to increase more than average inflation, but not as much its costs. Because of this, we expect EBITDA to drop by 4.6% to BRL19 billion in 2021, with a 30.5% EBITDA margin.

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) rating

» 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 more than 50% of its EBITDA. At the same time, we expect the company to benefit from a gradual improvement in the Brazilian economy following the lockdowns related to the coronavirus pandemic. 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 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.[1][2][3]

in BRL millions	FYE Dec-2016	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	2021-proj.	2022-proj.
Revenue	BRL45,602	BRL47,899	BRL50,231	BRL52,005	BRL58,379	BRL62,379	BRL65,083
EBITA Margin %	36.8%	36.1%	35.9%	31.4%	26.2%	22.9%	25.6%
RCF / Net Debt	9,810.0%	-158.3%	-201.4%	-188.6%	-106.3%	-67.0%	-56.7%
Debt / EBITDA	0.4x	0.3x	0.3x	0.3x	0.4x	0.4x	0.3x
EBIT / Interest Expense	15.1x	15.8x	12.3x	13.5x	9.4x	7.0x	7.0x

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2] Periods are financial year-end unless indicated. LTM = Last 12 months.
[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

Headquartered in Sao Paulo, Brazil, Ambev S.A. (Ambev) engages in the production, distribution and sale of alcoholic and nonalcoholic beverages in 18 countries across the Americas. In the 12 months that ended December 2020, Ambev reported net sales of BRL58.4 billion ($11.4 billion), with an adjusted EBITDA margin of 34.1%.

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

Detailed credit considerations

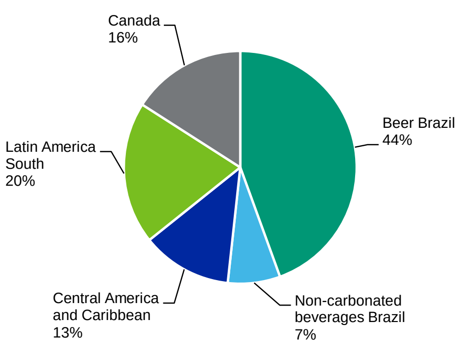
Large scale, diversification and brand recognition

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 an 66% market share n the last five years, 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 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.

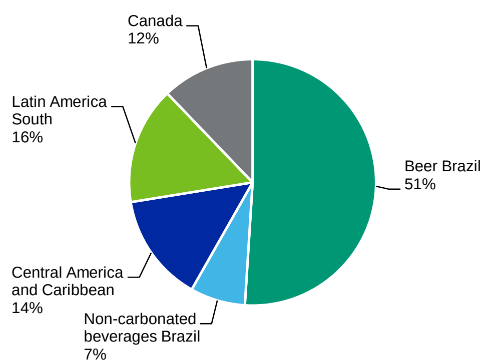
Ambev is also present in many South American countries, with leading market shares in Argentina, Bolivia, Paraguay and Uruguay, and the second-largest market share in Chile. Mainstream beers in the region include Quilmes and Patricia. In Central America and the Caribbean, the company's footprint includes El Salvador, Cuba, Guatemala, the 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 2020



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

Exhibit 4
Beer Brazil's EBITDA contribution is even more significant, because it delivers the highest margins of all segments
As of December 2020



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

As for brand recognition, 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, Budweiser sponsorship of NBA livestream in Brazil, and the annual Rio de Janeiro Carnival, exemplifies strong partnerships and brand activation capabilities.

On the digital front, a significant development came with the launch of the Zé Delivery app, a platform that connects beverage retailers and consumers. The crisis helped accelerate the use of online/mobile-based applications and delivery services. Ambev mobile strategy is to offer not only its products but to be a one-stop shop for beverage and food related items including, for example, snacks, ice and charcoal for parties and barbecues, and convenience for at home consumption. In 2020, the Zé Delivery app processed 27 million orders, compared with 1.5 million in 2019. The platform has more than 2,000 retail partners and it is present in more than 200 cities. In Argentina, the Appbar mobile app increased almost 10x its volumes.

The strategy Ambev has built in the last few years to digitalize the company helped its strong performance in 2020 and is likely to continue to do so. The strategy focused on the ecosystem will continue to increase efficiency, improve data-based analysis and broaden communication with customers on many platforms. Via its own marketing agency, Draftline, Ambev is able to capture and evaluate interaction patterns to generate content, increase engagement online, brand value and targeting. This is an important leverage for an increasing digital and dynamic marketing environment.

Corona voucher and online initiatives led to volume growth in Beer Brazil in 2020, such strong growth unlikely to repeat in 2021

Beer consumption in Brazil shifted to off-premise because of the pandemic-led closures and shutdowns. Nevertheless, volumes for Beer Brazil were up 5.6%, favored by government aid provided to individuals of BRL600 per month, between April and October, and BRL300 per month until December. As a result, volumes were up 25.4% in Q3 and 12% in Q4 compared with the year-earlier periods. Because of the high comparison base of H2 2020, we estimate beer volumes for Ambev will drop by 1.5% in 2021, although H1 2021 should still present a robust year-on-year growth. Off-trade volumes were sustained by supermarket and mom-and-pop stores.

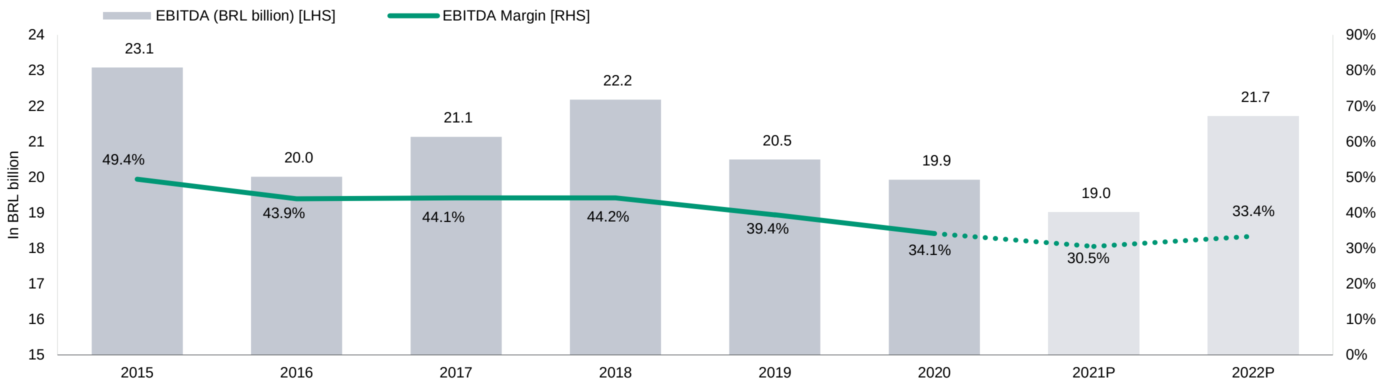
Ambev's large scale, nationwide footprint and online/digital presence are import tools to mitigate such disruptions as those presented by the 2020 pandemic. Ambev's strong and well-known brands have historically enabled the company to pass through cost increases, with only a temporary impact on the market 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. At the same time, the premium and core plus offerings continue to enjoy double digit growth in percentage terms. 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

Commodity-linked input costs and foreign exchange primarily influence Ambev´s cost of goods sold. However, historically, Ambev has demonstrated an ability to pass through costs to the final consumer; strictly established internal processes and cost-control initiatives; and ability to fully hedge its raw material needs 12 months ahead. Ambev´s hedging strategy allows for some predictability of its cost trends. With the sharp increase in the commodity curves for barley, aluminum and sugar, coupled with the depreciation of the Brazilian real against the US dollar, costs will increase substantially in 2021. According to Ambev, Beer Brazil costs will likely increase 20%-22% year over year.

In 2020, Ambev posted an adjusted EBITDA margin of 34.1% and an adjusted leverage ratio of 0.42x. Because of the sharp cost increases, we are considering an EBITDA drop of 4.6% to BRL19 billion and a reduction in EBITDA margin to 30.5%. In 2022, we expect EBITDA to advance 14.2% to BRL21.7 billion with normalized revenue growth, a shift back to consumption on-premise and greater cost dilution.

Exhibit 5
Margins have remained strained because of higher commodities and foreign-exchange hedges, but we expect them to rebound in 2022



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 52% and 58% of revenue and EBITDA, respectively, for 2020. 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 the company has added more premium 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, the 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.

ESG considerations

High dividend payout to ABI

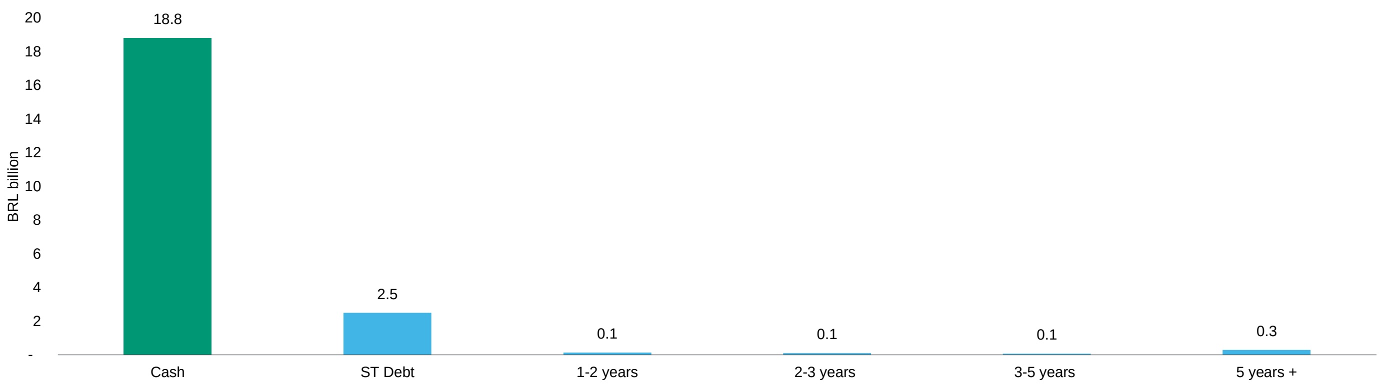
Ambev is a public company, with shares traded on the Sao Paulo Stock Exchange and the New York Stock Exchange. ABI is Ambev's largest and controlling shareholder, holding indirectly — through two subsidiaries (IIBV and AmBrew) — 61.8% of the company's voting shares. The company is governed by a shareholder agreement signed among IIBV, AmBrew and Fundação Zerrener. Fundação Zerrener holds 10.2% 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.

Liquidity analysis

Ambev has excellent liquidity over the next 12 months. As of 31 December 2020, the company had BRL18.8 billion in cash and cash equivalents, compared with a total adjusted debt of BRL8.3 billion, including BRL1.7 billion in operating leases and BRL3.5 billion in pension adjustment.

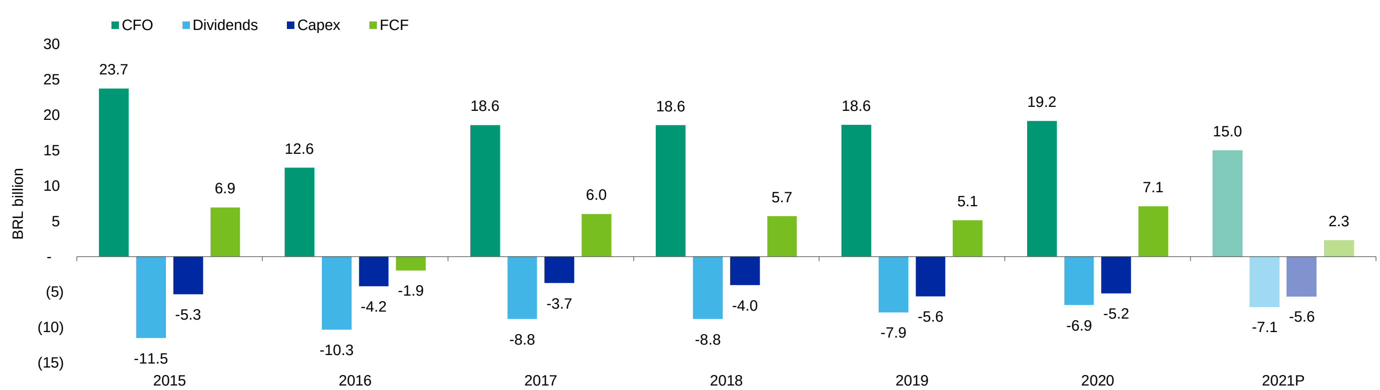
Exhibit 6
Debt amortization schedule
As of December 2020



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 BRL19.2 billion for 2020, and when added to its cash position, was more than enough to meet its capital spending needs of BRL5.2 billion and dividend payments of BRL6.9 billion for the same period. After a strong working capital gain of BRL898 million in 2020, we expect working capital to be neutral to slightly negative in 2021. However, cash flow from operations will be lower because of a reduction in funds from operations, strained by higher costs.

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 actual assigned rating of Baa3 is primarily constrained by Brazil's sovereign rating. Over 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 12/31/2020		Moody's 12-18 Month Forward View As of 3/22/2021 [3]	
Factor 1: Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$11.4	Baa	$9 - $12	Baa
Factor 2: Business Profile (32.5%)				
a) Diversification and Exposure to Riskier Markets	Ba	Ba	Ba	Ba
b) Category / Brand Strength and Diversification	A	A	A	A
c) Global Industry Position	A	A	A	A
d) Innovation, Distribution and Infrastructure	A	A	A	A
Factor 3: Profitability (7.5%)				
a) EBITA Margin	26.2%	Baa	20% - 26%	Baa
Factor 4: Leverage and Coverage (30%)				
a) RCF / Net Debt	-106.3%	Aaa	--	Aaa
b) Debt / EBITDA	0.4x	Aaa	0.3x - 0.4x	Aaa
c) EBIT / Interest Expense	9.4x	Baa	6x - 10x	Baa
Factor 5: Financial Policy (15%)				
a) Financial Policy	A	A	A	A
Rating:				
a) Scorecard-Indicated Outcome		A2		A2
b) Actual Rating Assigned		Baa3		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2020.
[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
Senior Unsecured -Dom Curr	Baa1
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

Appendix

Exhibit 10

Moody's-adjusted debt reconciliation for Ambev S.A.[1][2]

in BRL millions	FYE Dec-2016	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020
As Reported Debt	**5,396.3**	**2,554.8**	**4,103.7**	**3,062.8**	**4,792.2**
Non-Standard Public Adjustments	580.0	80.7	459.3	314.8	0.0
Pensions	2,137.7	2,310.7	2,343.7	2,704.5	3,544.0
Leases	130.3	1,802.3	0.0	0.0	0.0
Moody's-Adjusted Debt	**8,244.3**	**6,748.5**	**6,906.6**	**6,082.1**	**8,336.3**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA reconciliation for Ambev S.A.[1][2]

in BRL millions	FYE Dec-2016	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020
As Reported EBITDA	**18,636.8**	**18,763.9**	**19,318.5**	**18,980.9**	**20,459.7**
Non-Standard Public Adjustments	5.0	3.1	-1.0	22.3	0.0
Unusual Items - Income Stmt	1,321.0	1,766.5	2,869.3	1,492.3	-491.6
Pensions	3.0	-0.8	-3.5	0.8	-37.3
Leases	43.4	600.8	0.0	0.0	0.0
Moody's-Adjusted EBITDA	**20,009.2**	**21,133.6**	**22,183.2**	**20,496.2**	**19,930.7**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 12

Peer comparison[1][2]

	Ambev S.A. Baa3 Stable		Carlsberg Breweries A/S Baa2 Stable		Coca-Cola FEMSA, S.A.B. de C.V. A2 Negative			Kirin Holdings Company, Limited Baa1 Stable			Heineken N.V. Baa1 Stable	
in US millions	FYE Dec-2019	FYE Dec-2020	FYE Dec-2018	FYE Dec-2019	FYE Dec-2018	FYE Dec-2019	LTM Sep-2020	FYE Dec-2018	FYE Dec-2019	LTM Sep-2020	FYE Dec-2019	FYE Dec-2020
Revenue	$13,207	$11,441	$9,903.3	$9,881.6	$9,493	$10,104	$8,914	$14,827	$15,131	$14,742	$26,833	$22,501
Operating Profit	$4,024	$2,707	$1,408	$1,432	$1,364	$1,397.9	$1,222	$1,684	$1,541	$1,396	$4,038	$1,940
EBITDA	$5,205	$3,906	$2,162	$2,133	$1,987	$2,014	$1,791	$2,524	$2,301	$2,156	$6,218	$4,014
Total Debt (Gross)	$1,511	$1,604.9	$5,307	$5,660	$4,435	$3,926	$4,855	$5,105	$6,194	$7,977	$20,777	$23,347
Cash & Cash Equivalents	$2,962	$3,617	$856	$784	$1,204	$1,085	$2,629	$1,577	$1,524	$1,837	$2,044	$4,894
EBIT / Interest Expense	13.5x	9.4x	9.1x	11.3x	5.4x	6.0x	4.2x	17.3x	19.2x	22.3x	6.4x	3.0x
Debt / EBITDA	0.3x	0.4x	2.5x	2.6x	2.3x	1.9x	2.9x	2.0x	2.7x	3.6x	3.3x	5.4x
RCF / Net Debt	-188.6%	-106.3%	28.6%	12.6%	33.1%	32.4%	23.6%	46.6%	26.8%	16.1%	19.3%	14.4%
FCF / Debt	84.3%	85.4%	15.6%	-0.9%	6.0%	10.8%	5.6%	9.7%	0.1%	-0.2%	4.6%	2.9%
EBITA Margin %	31.4%	26.2%	15.8%	15.4%	15.8%	15.3%	15.3%	12.8%	11.3%	10.5%	17.0%	10.1%

[1] All figures and ratios calculated using Moody's estimates and standard adjustments.
[2] FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

REPORT NUMBER 1272542

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