

So a value stock that we bought here at Pzena in 2020 was Ambev. In 2020 the COVID pandemic hit, and Brazil was hit very, very hard—very unfortunate situation, but a great opportunity for us as value investors. Prior to COVID, Brazil had been fairly expensive recently; there was a lot of optimism about the direction of the economy. Unfortunately, because of the pain due to the pandemic, some really great businesses got quite cheap, and one of those is Ambev.

Ambev is the subsidiary of Anheuser-Busch. It's the company's operations in Latin America, so it produces and distributes beer to a number of different Latin American countries and has a very commanding market share. The biggest exposure here is Brazil, and within Brazil Ambev has something like two-thirds of the market. When you dig into it, what you see is that they have a very sustainable advantage in distribution—very difficult for a competitor to try to replicate—so really a fantastic business.

When COVID hit, it brought a lot of pain to this business in three different ways. First, you have a recession, so less demand in general. Beyond that, you had a mix problem: because all of the bars and restaurants were closed and people were consuming beer at home, they tend to drink more premium product—which is higher margin—when they're in a bar or restaurant, so you had a mix hit to the operating margin as well. Then finally, you had a problem on the cost side because the Brazilian real depreciated relative to the U.S. dollar during this period. Most of the cost inputs for the company are priced in dollars, yet the final product—beer—is priced in the local currency, the Brazilian real. The company hedges that cost currency issue in the short term, but in the long term eventually it comes through, and they need to raise prices locally to account for this cost inflation. In the weak-demand period of the COVID pandemic, they were unable to raise those prices, so the earnings really were squeezed at this moment, and the market reacted by making the stock go down.

From our perspective, this company is not worth less today than it had been a few months ago. It's still the same great business with the same great market share, the same great distribution network, the same great product, and—might I add—the same great balance sheet. Even if this temporary pain goes on for a while, we don't have to worry about the balance sheet or our equity stake in the business. To us, this was the opportunity to buy a fantastic business that otherwise wouldn't have come our way, and we were happy to add it to our portfolio here at Pzena.

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