28-Oct-2021

Molson Coors Beverage Co. (TAP)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Greg Tierney
Vice President-FP&A and Investor Relations, Molson Coors Beverage Co.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

OTHER PARTICIPANTS

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Robert Ottenstein
Analyst, Evercore ISI

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Bryan D. Spillane
Analyst, Bank of America Merrill Lynch

Kevin Grundy
Analyst, Jefferies LLC

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Christopher Carey
Analyst, Wells Fargo Securities LLC

Brett Cooper
Analyst, Consumer Edge Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Molson Coors Beverage Company Third Quarter Fiscal Year 2021 Earnings Conference Call. You can find related slides on the Investor Relations page of the Molson Coors website.

Our speakers today are Gavin Hattersley, President and Chief Executive Officer; and Tracey Joubert, Chief Financial Officer. With that, I'll hand it over to Greg Tierney, Vice President of FP&A and Investor Relations.

Greg Tierney

Vice President-FP&A and Investor Relations, Molson Coors Beverage Co.

Thank you, Charlie, and hello, everyone. Following prepared remarks today from Gavin and Tracey, we will take your questions. In an effort to address as many questions as possible, we will ask that you limit yourself to one question. If you have more than one question, we'll answer that first question first, and then we'll ask you to reenter the queue for any additional follow-ups. If you have technical questions on the quarter, please take them up with our IR team over the days and weeks that follow.

Today's discussion includes forward-looking statements, and actual results or trends could differ materially from our forecast. For more information, please refer to the risk factors discussed in our most recent filings with the SEC. We assume no obligation to update forward-looking statements. GAAP reconciliations for any non-US GAAP measures are included in our news release. And also, unless otherwise indicated, all financial results the company discusses are versus the comparable prior year period and in US dollars.

With that, over to you, Gavin.

Gavin D. K. Hattersley

President, Chief Executive Officer & Director, Molson Coors Beverage Co.

Thanks, Greg, and thanks everybody for joining us here this morning. I'm going to change things up a bit here from our normal structure, and I'm going to share seven key headlines from our third quarter. Firstly, Coors Light is growing share of the total beer category in the United States. This is our biggest brand in our biggest market, a brand that many doubted could get back onto this trajectory, and it's growing share in the industry for the first time in more than five years.

Two, globally, Molson Coors net sales revenue from its above premium portfolio has surpassed 25% of our brand volume net sales revenue on a trailing 12-month basis for the first time since the revitalization plan was announced.

Third, Molson Coors has grown share of the US above premium segment for two straight quarters for the first time in over five years.

Four, as we expand Beyond Beer and with three months still left in the year, Molson Coors has sold nearly two million cases of non-alcohol beverages in the United States.

Five, Molson Coors total market share trend in Canada has improved for eight straight months, leading to national share growth in the third quarter, and the European business has bounced back, essentially reaching 2019 revenue levels.

Six, challenges in the global supply chain impacted our third quarter volumes. We are already seeing improvements in brewery output in October. We are back to shipping approximately one million barrels per week in the US during the fourth quarter. And in aggregate, distributor inventories are starting to improve.

And seventh, like for so many others, transportation availability and transportation costs are worse than they have been in years.

So, I want to start there and then we'll work backwards. Like we've discussed for the second quarter and like other CPG companies, inflation was again a challenge in Q3, specifically with respect to transportation. Fuel prices are up, truckers are in short supply around the world and freight costs are up too. As Tracey highlighted in our second quarter earnings, we have long-term contracts with carriers and a robust hedging program as well as meaningful cost savings programs to mitigate price fluctuations. The driver shortages at our existing carriers are forcing us to use the spot market and to pay spot market rates, which are significantly higher than they have been in many years.

Right now, up to one in every four shipments are at these high spot rates. That level of inflation cannot be completely absorbed or avoided, and you're seeing the results in our COGS for the quarter. Beyond the hedging and cost savings, we are taking steps to reduce the impact, including shipping more beverages on rail. Also, we expect gross margin benefits as we continue to premiumize our portfolio under our revitalization plan and achieve improved efficiencies through our economy SKU deprioritization and rationalization plan. But even with those steps, inflation will continue to be a pressure point for us and for just about every other company.

Our shipment trends in the third quarter were not what we wanted them to be. Some of that is related to the challenges of moving finished goods to distributors and also moving supplies within our brewery network. Some of that is related to our own suppliers having difficulty getting us the materials we needed since they're facing the same supply chain challenges as everyone else in the world.

But the good news is that this trend, as I've said, has already started turning. While August and September were difficult production months, the steps we have taken in the third quarter to expand our base of material suppliers and improve our availability for most packaging materials have allowed us to increase shipments so far in the fourth quarter. We are once again shipping approximately 1 million barrels per week in the US, and that has helped us increase distributor inventories by approximately 20% over the past few weeks.

So that is, of course, the measurement of our total network and that is a trend we expect to build on. I also want to quickly address volume. Some of you may look at our North American volume trends with concern. But I want to remind you that this is predominantly the result of an intentional and strategic decision we made to deprioritize and eliminate a number of large – a large number of lower-margin, slower moving SKUs in the US that were mainly in the economy segment. The intention was to simplify and premiumize our portfolio, and that is exactly what is happening.

So, our volume is down, but our net sales revenue per hectoliter is up. And I can again tell you that we are on track to deliver on our full year key financial guidance for 2021. Look at what is happening in Canada. We have improved our national share trend for eight straight months, leading to total share growth in the third quarter. This is the best share trend performance we have seen in at least six years. As the on-premise reopens in Canada, our share is growing above 2019 levels, a big driver of our progress.

Coors is growing share of the segment in Canada as well with Miller Lite also growing approximately 30% in the quarter. Molson Ultra has seen strong year-to-date performance with volume growing mid single-digits along with strong share gains. These are all very good signs for our business in Canada.

Not to be outdone, our European business has bounced back strongly. In the UK, our on-trade net sales revenue has now reached 2019 levels, and margin has surpassed 2019 levels as the business continues to premiumize, which I'll touch on in more detail in a moment.

As we look to the fourth quarter, we plan to keep this momentum up by stepping up our European marketing investments. Two years after shifting from a beer company to a beverage company, we have reached a significant milestone. For the first nine months of the year, we have sold nearly two million cases of non-alcohol beverages as we continue to drive towards our $1 billion revenue ambition for our emerging growth business by 2023.

We have launched into categories where we think we can create scale offerings like water, energy and coffee. First, of course, is our partnership with ZOA, which has been making some serious noise since its launch just over six months ago. It's the number one new energy franchise in 2021, and it's already a top 20 energy drink brand. ZOA already has 31,000 buying outlets and over 115,000 points of distribution with more coming online every day. There's a lot of upside for this brand.

We have the distribution partnership for La Colombe's incredible line up of ready-to-drink coffees, one of the fastest-growing spaces in the beverage industry. And thanks to our early success with distribution in large national retailers, we also unlocked national distribution of La Colombe in grocery and mass channel stores for early 2022.

Growing beyond the beer aisle is no longer an aspiration. We're doing it, and we're driving scale. Molson Coors has grown share of the US above premium segment for two straight quarters for the first time in over five years. That market is largely driven by the continued success of our US hard seltzer portfolio, and this is another space I want to take a little more time to discuss. There's been a lot of noise over the past few months about hard seltzers in the US, a lot. Not all of it has been accurate, and much of it has been unproductive.

Now are hard seltzers going to keep growing at [ph] 300% (9:34) per year, but of course, not. And we've been clear since last fall that we didn't expect them to do so. But in spite of the rosy forecast some had a year ago and the bleak forecast being thrown about today, there are some clear truths. Hard seltzers are here to stay. They are over 10% of beer category sales and growing. But the segment has matured and the easy growth is over.

Moving forward, it is going to take distinctive, differentiated brands in order to succeed, and that's why we feel so confident about our portfolio. While so many of the mainstays are declining, Molson Coors has the fastest-growing hard seltzer portfolio in the United States. Vizzy brand volumes grew 50% in the third quarter versus the prior year and passed yet another competitor to become the number four hard seltzer in the United States.

Despite only being launched in 16 different markets in the US, Topo Chico Hard Seltzer occupies the number three slot as a new item in the general malt beverages category. The brand also garnered a 2.4% share of the US market according to IRI, and this success has led to the national expansion of the brand. But that is not the extent of our premiumization.

Our joint venture with Yuengling launched in Texas this quarter, and we are very pleased with the very early results. By the end of August, it was already available for purchase in 40,000 locations across the state. As the on-premise continues to strengthen, so have two of our biggest above premium brands. Peroni is up double digits, gaining share in the category and outpacing all other European imports. Blue Moon Belgian White is up high single digits. And this quarter, we announced plans to build upon the success of Blue Moon LightSky, which our data shows is 96% incremental to the flagship Belgian White.

Blue Moon LightSky continues to see double-digit growth year-to-date after finishing 2020 as the number one new beer in the United States. In 2022, we'll add more muscle to the Blue Moon family as we launch LightSky Tropical Wheat.

As I said in our second quarter earnings call, premiumization is here to stay at Molson Coors. All that growth in the US is contributing to a significant premiumization of our entire global portfolio. So much so that as of the third quarter, the percentage of Molson Coors portfolio that is above premium has surpassed 25% of our brand volume net sales revenue on a trailing 12-month basis for the first time since the revitalization plan was announced. And that progress is being seen throughout the company.

The early returns on our Canadian hard seltzer portfolio have exceeded the expectations with both Vizzy and Coors Seltzers generating strong market share. We will extend that streak when we introduced Topo Chico Hard Seltzer in Canada in 2022, which we announced this month.

Six Pints, our Canadian craft business, is growing double-digits despite on-premise restrictions. Combined with the growth of Miller Lite and Molson Ultra, this has continued to drive the premiumization of our business in Canada.

In Western Europe, our new Mediterranean lager, Madri, has already doubled its distribution goal for the year, now at approximately 5,500 on-premise outlets with more coming in the fourth quarter.

In Central and Eastern Europe, New Smooth pilsner larger, Pravha, has been performing above expectations across the market with presence in more than 15,000 outlets supported with strong media campaigns, reaching over 13 million consumers.

And in Latin America, Coors Light is growing in Puerto Rico for the first time in 15 years, where it sells at an above premium price point. And speaking of Coors Light, that brings me to the final point I want to make this morning. In the face of many doubters, Coors Light is growing share of industry in the United States for the first time in more than five years. The brand's strong performance in the third quarter was aided by the continued success of our Made to Chill campaign and through increased marketing investment.

We're actually making progress on the things that are within our control and driving measurable results that continue us on the path to delivering on our goal of sustainable, long-term top and bottom-line growth. We are two years into our revitalization plan, and I remain confident that we are on track to deliver our full year key financial guidance for 2021, while continuing to invest behind our brands and I'm very optimistic about the future for Molson Coors. Tracey?

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin and hello everyone. As Gavin mentioned, we are again reaffirming our key financial annual guidance for 2021. We continued to make real progress executing our revitalization plan. We invested behind our business, driving premiumization of our portfolio of our brands, and strengthening our core business, while continuing to de-lever our balance sheet and to reinstate the dividend.

But like most consumer product companies, we faced supply chain challenges and inflationary cost headwinds in the quarter, which had an impact on our quarterly results.

Now, let me take you through our quarterly results in more detail and provide an update on our outlook. Consolidated net sales revenue increased 1% in constant currency, delivering over 99% of third quarter 2019 level despite the on-premise continuing to operate below pre-pandemic levels.

Consolidated financial volumes declined 3.9%, primarily due to lower brand volumes, which were down 3.6%, largely due to the economy segment, including the economy SKU de-prioritization program.

Topline performance benefited from strong global net pricing, favorable brand mix levels in North America as we continue to premiumize our portfolio, double-digit revenue growth in Europe, and positive channel mix.

Net sales per hectoliter on a brand volume basis increased 3.6% in constant currency, driven by the strong pricing growth, coupled with positive brand and channel mix. Underlying COGS per hectoliter increased 8.9% on a constant currency basis, driven by cost inflation, including higher transportation and input costs, mix impact from premiumization and volume deleverage.

However, with our robust hedging and cost savings programs, we have been able to mitigate some of the inflationary pressure. Underlying MG&A in the quarter increased 3.5% on a constant currency basis due to higher marketing investments behind our core brands and innovation, as well as cycling targeted reductions to marketing spend in the prior year period due to the pandemic, which was largely offset by lower G&A expenses.

As planned, we increased marketing investments in the quarter to levels above second quarter 2021 and third quarter 2019 levels, ensuring strong commercial pressure behind our key innovations and core brands. As a result of these factors, underlying EBITDA decreased 10.9% on a constant currency basis.

Our effective tax rate in the quarter was significantly impacted by a discrete tax item. You may recall in the second quarter of last year following the issuance of certain US tax regulations, we recognized a material discrete tax expense of $135 million. It was related to previously taken tax positions over several years.

In the third quarter of this year, we reached a settlement with the tax authorities with regard to our tax positions impacted by those tax regulations. As a result of the settlement, we had a release of unrecognized tax benefit positions in the quarter that resulted in a P&L tax benefit of $68 million, including a $49 million discrete tax benefit in the third quarter.

Underlying free cash flow was $933 million for the first nine months of the year, a decrease in cash received of $227 million, from the prior year period. This decrease was primarily driven by the repayment of taxes related to various government-sponsored deferral programs related to the pandemic.

As a reminder, in 2020, working capital was positively impacted by over $200 million for benefits related to these government tax deferral programs. Capital expenditures paid was $363 million for the first nine months of the year as we continue to invest behind capability programs such as our previously announced Golden Brewery modernization project and our new Montreal brewery expected to open by year-end. Capital expenditure levels were relatively consistent with the comparable period in the prior year.

Now let's look at our results by business units. In North America, the on-premise has not returned to pre-pandemic levels, but continued to improve on a sequential quarter basis. In the third quarter, the on-premise channel accounted for approximately 14% of our net sales revenue in the quarter, compared to approximately 12% in the second quarter of 2021 and 16% in the same period in 2019.

In the US, the on-premise accounted for about 88% of 2019 net sales revenue in the quarter. In Canada, restrictions continued to ease throughout the quarter with the on-premise net sales rising to 80% of 2019 levels in the third quarter, up from about 25% in the second quarter.

North America net sales revenue was down 2.1% in constant currency as net pricing growth and positive brand mix were more than offset by lower volume. North America financial volumes decreased 4.8%, largely due to lower brand volumes of 3.8%, driven by the US.

In the US, domestic shipment volumes decreased 6.6%, trailing brand volume declines of 5.2%, driven by unfavorable shipment timing and declines in the deprioritized economy segment. Economy was down double digits, as we deprioritized and announced the rationalization of approximately 100 non-core SKUs, which were primarily in the economy segment. Conversely, our US above premium portfolio was up high single digits.

Canada brand volumes improved 0.5% in the quarter, and Latin America brand volumes continued their strong performance and experienced 9% growth, reflecting the easing of on-premise restrictions.

Net sales per hectoliter on a brand volume basis increased 2.4% in constant currency with net pricing growth and favorable brand mix, partially offset by unfavorable geographic mix, given the growing license volume in Latin America.

US net sales per hectoliter increased 3.2%, driven by net pricing growth and positive brand mix, led by above premium innovation brands, including Vizzy, Topo Chico Hard Seltzer and ZOA. Net sales per hectoliter on a brand volume basis grew in Canada, due to positive brand and channel mix, as well as net pricing increases, while Latin America also increased due to favorable sales mix.

Underlying cost per hectoliter increased 7.3%, driven by inflation, including higher transportation and packaging materials and brewery costs, volume deleverage and mix impact from premiumization.

Underlying MG&A decreased 1%, as higher marketing investments were offset by lower G&A due to lower incentive compensation expense and the recognition of The Yuengling Company joint venture equity income.

We increased marketing investments behind our innovation brands and our iconic core brands, Coors Light and Miller Lite, including an increase in local tactical spend as on-premise restrictions eased throughout the quarter. As planned, we increased US marketing investment compared to not only the same period in 2020, but also versus 2019. North America underlying EBITDA decreased 14.3% in constant currency.

Europe net sales revenue was up 14.7% in constant currency, with an 11% increase in net sales per hectoliter on a brand volume basis, driven by positive brand, channel, geographic and packaging mix and positive net pricing.

Top line performance also benefited from the on-premise reopening in the UK on July 19. And of note, in the third quarter of 2020, the on-premise had fewer restrictions than in the second and fourth quarters of that year. The UK on-premise channel net sales revenue reached similar levels of pre-pandemic levels in the quarter.

Europe financial volumes decreased 2% and brand volumes decreased 3%. The decline was primarily due to lower Central and Eastern European volumes, driven by increased on-premise restrictions related to the coronavirus and the disposal of our India business in the first quarter of 2021.

This was partially offset by growth in the above premium brand volumes, which reached another record high portion of our Europe portfolio. Underlying EBITDA increased 2.7% in constant currency, as revenue growth was partially offset by higher marketing investments.

Turning to the balance sheet. As of September 30, 2021, we had lowered our net debt to underlying EBITDA ratio to 3.3 times and reduced our net debt to $6.6 billion, down from 3.5 times and $7.5 billion, respectively, as of December 31, 2020.

On July 15, we announced that we had repaid in full the $1 billion, 2.1 senior notes that were maturing that day using a combination of commercial paper and cash on hand. We ended the third quarter with strong borrowing capacity with approximately $1.5 billion available capacity under our US credit facility.

Now turning to our financial outlook. We are again reaffirming our 2021 key financial annual guidance originally provided on February 11, 2021. While we are sitting in a better place than we were a year ago, it bears reminding that uncertainty as it pertains to the coronavirus and its variants remains to varying degrees by market. If restrictions are reinstated in some of our larger markets, this could have a significant impact on our financial performance over the next few months.

Now I'll provide some underlying expectations to provide some additional context for the balance of the year. We expect to deliver mid single-digit net sales revenue growth for the full year on a constant currency basis. We continue to work to build inventories with wholesalers, which have been at low levels. And as Gavin mentioned, we are making progress.

In the US, we expect on-premise trends to continue to improve as we lap restrictions in the prior year period. In Canada, we continue to see greater on-premise reopenings varying by province, which should continue to provide positive channel mix.

In Europe, the UK top line should strongly benefit from the prior year fourth quarter, given the on-premise was fully locked down for November and December of 2020, which are typically strong months given the holidays.

Our guidance also anticipates continued strength in our above premium portfolio, particularly hard seltzers, innovations and imports. Also, we expect continued solid progress against our previously discussed emerging gross revenue goal of $1 billion in annual revenue by 2023, against which we continue to track ahead of plan driven by ZOA, La Colombe and Latin America.

We continue to anticipate underlying EBITDA to be roughly flat compared to 2020 as top line growth is expected to be offset by continued cost inflationary headwinds largely transportation and packaging materials, including aluminum and the Midwest premium and increased marketing investments to deliver against our revitalization plan.

Under the revitalization plan, 2021 has been a year of investment for the company, and we intend to continue to increase marketing investments to build on the strength of our core brands and support successful innovation.

As Gavin mentioned, we expect fourth quarter marketing investments to be higher than the fourth quarter of 2019, as we continue to ramp-up supply and put commercial pressure to support our big bet brands in both North America and Europe.

We continue to anticipate underlying depreciation and amortization of $800 million, and net interest expense of $270 million, plus or minus 5%. However, due solely to the discrete tax benefit in the third quarter, we have adjusted our effective tax rate range for 2021 only to 13% to 15% from 20% to 23% previously.

Also, as a reminder, in 2020, our working capital benefited from the deferral of approximately $150 million in tax payments from various government-sponsored payment deferral programs related to the coronavirus pandemic. We currently anticipate the majority to be paid this year as they become due.

Moving to capital allocation. We continue to prioritize investing in our business to drive top line growth and efficiencies, reducing debt and returning cash to shareholders. First, we plan to continue to prudently invest in brewery modernization and production capacity and capabilities to support new innovations and growth initiatives, improve efficiencies and advance towards our sustainability goals.

Second, we have a strong desire to maintain and in time, upgrade our investment grade rating. As such, we expect to continue to improve our net debt position and reaffirm our target net debt to underlying EBITDA ratio to be approximately 3.25 times by the end of 2021, and below 3 times by the end of 2022.

And third, on July 15, our Board of Directors determined to reinstate a quarterly dividend on our Class A and Class B common shares and declared a quarterly dividend of $0.34 per share payable on September 17. The Board made the decision to reinstate the dividend at a level that they believe is sustainable and provides room for future increases as business performance improved.

In closing, to be sure we have faced challenges in the quarter, but are proud of our agility and the actions we have taken to manage through them. Through it all, we have continued to successfully execute against our revitalization plan with clear premiumization of our portfolio. And despite all the ups and downs throughout this year, we have reaffirmed our key financial annual guidance yet again. Like most consumer product companies, we face near-term challenges, but the fundamentals of our business remains strong, and we are confident we are on the right path toward long-term sustainable revenue and underlying EBITDA growth.

So, with that, we look forward to taking your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We will now begin the Q&A portion of the call. [Operator Instructions] Our first question comes from Lauren Lieberman of Barclays. Your line is open. Please go ahead.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks, so much. Good morning. I was hoping – sorry, Tracey and Gavin, both of you very clearly reiterated the expectation on EBITDA for the year. My only question is just it implies really significant growth in the fourth quarter. And given the COGS per hectoliter inflation, it was 9%, as I recall, this quarter, I know the, if you will, comp gets easier on cost in the fourth quarter year-over-year and you've got some on-premise tailwinds with mix. But just anything else we should be aware of that kind of allows for the type of EBITDA growth you would need particularly in Q4 in order to get to the year, and again just given the cost environment, it'd sort of be helpful to get more color on that. Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Lauren. And yeah, look, I mean just – the first statement I'd say is that we wouldn't reiterate the guidance if we didn't believe that we would hit it. Maybe just a couple of contextual points to help you here, right? I mean, the fourth quarter last year in Europe and Canada were very difficult as a result of the almost total lockdown of the on-premise. And that's not our expectation this year, and we haven't seen that in October, which is obviously the first month of the fourth quarter.

I did cover off in my opening remarks, the challenges that we had with the sales to wholesalers shipments in the third quarter. And that has improved meaningfully in October due to the actions which we took to improve that. And as I said, our distributor inventory levels are approximately 20% higher than they were coming out of the third quarter, which is obviously very helpful from that perspective as well. Our above premium performance continues to accelerate, whether that's brands like Blue Moon Belgian White and Peroni and our seltzer portfolio as well as our emerging growth portfolio. So, yeah, I think, those are the contextual points I would give you.

On the flip side, I'll tell you, at the same time, we do intend to increase marketing spend. I know there's been some conversation about the fact that it's either/or. And for us, it's not. It's both and. And we did that in the third quarter. We increased our marketing spend above 2019 levels and above, obviously, 2020, which was – is an easier comp and we plan to spend more than 2019 levels in the fourth quarter as well behind the success that we're seeing in many of our brands. So hopefully, that's helpful for you.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

It is. I mean – I think the – my recollection was that some of the innovation, though at least in the near term is margin dilutive? Or there's a higher cost to do some of the above premium and emerging growth pieces of – again in the near term. So, I guess, is that incorrect? Or are we starting to cycle some of that already by the fourth quarter? Because maybe I'm thinking that maybe the biggest thing is the distributor inventory, right? It's the higher volume moving out the door and the leverage you're going to see on those shipments is maybe the biggest piece of the equation?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Well, certainly, that is going to be positive for us in the fourth quarter. I'd reiterate again that our European and Canadian comps for Q4 are not terribly challenging given the on-premise environment that we had last year. And certainly, as we start to gain scale in some of our innovations, so that improves profitability. I mean we have increased our seltzer's share by more than 50% since the beginning of the year. And our two brands in that space are growing faster than any other major company in the third quarter, and we plan to accelerate that. Our share on seltzer in the last readouts was almost close to 7.5%. So, already even more than we saw at the end of Q3. So that's I think that kind of covers it all, Lauren.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. All right. Thanks so much. I appreciate it.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Sure.

Operator: Our next question is from Rob Ottenstein of Evercore. Your line is open. Please go ahead.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much and Gavin, congratulations on being so prescient in your views on the seltzer category. Along those lines, love to get your thoughts on how that category – how you really see that category developing as well as how the overall RTD category is developing and kind of the interaction between those two, if you see them pretty much as the same thing or a little bit different? And how your views on how those are going to develop, impact your long-term strategy? Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Robert. And yeah, look, you're right. We have been saying for more than a year now that seltzers couldn't grow at the pace that they were growing. But I would say that's still up double digits year-to-date. I mean, segment is significant and its here to stay, but its important now I think in this new space in the seltzer categories you need to drive strong brands with a clear point of difference. And that's why [ph] perhaps these (35:56) seltzer brands grew more share than any other major brewer in the third quarter and why we feel so good about those two brands.

As far as the overall RTD space is concerned, I mean, obviously it's an emerging and fast-growing segment. RTD sales already outpace spirits, and that gap is only going to widen in the future. And competing in this space is a natural fit for us, given that we've got hundreds of years of experience in alcoholic beverages and lots of experience in 12-ounce cans and bottles. So, we will continue to compete in this category with brands like Superbird and potential innovation that we're looking at.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Rob.

Operator: The next question comes from Nadine Sarwat of Bernstein. Your line is open. Please go ahead.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Hi, Gavin and Tracey, two related questions, if I may. So, the first is industry press has reported that you'll be significantly increasing your freight and fuel surcharge to distributors. So, when does this increase become effective? And does this help you offset the increase in transportation costs? If so, by how much, given that pressure we've seen on margins?

And the second related question is, could you elaborate both on the magnitude and cadence of your pricing increase over the next 12 months? Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks Nadine. From a freight and fuel point of view, this was a program that we put in place with our distributors, gosh, 10 years ago, Tracey.

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

A

Exactly.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Yeah, about 10 years ago. And the objective was they're really there to share the increase in freight and fuel and to eliminate volatility. And we've had years where the freight and fuel surcharge has gone down, for example, the last two years. And unfortunately, given the significant challenges that exist in the whole freight and fuel market, it is going to go up meaningfully next year. And yes, it is a cost sharing between ourselves and the distributors. So about – it was 50/50. So, I mean it's a cost sharing. When do we finalize the number? We finalized it at the end of the year, and it will apply to the whole of the – for the whole of next year.

As far as pricing is concerned, Nadine, that one is a tougher one for me, right? Because, obviously, we don't provide guidance on price going forward for obvious reasons. But we closely watch and evaluate our pricing. We do it on a market-by-market basis. We do it brand by brand to see how it best fits with our brand strength and so on. And, obviously, input costs play a role in those decisions. We do have other levers, which can help offset inflationary pressure.

Tracey mentioned, one of them moving from truck to rail. We've got our cost savings programs. We have a robust hedging program. Our overall premiumization strategy is driving strong positive mix in our NSR per hectoliter. I think this quarter was the fifth quarter that we've grown that, notwithstanding, the significant comp that we had in this space from Q3. And then we've got a variety of revenue management tools. We've spent a long time in the last six years since 2015 building revenue management tool capability. And I think, we've as well placed in that space as we've been in a long time.

Thanks, Nadine

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Great. Thank you

Operator: The next question is from Steve Powers of Deutsche Bank. Your line is open. Please go ahead.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hey. Thank you. I actually wanted to go back to Lauren's question on the fourth quarter, if I could, just to better understand because while I think I get the easier comparison with a year ago in parts of the business. The guidance implies essentially a return to, as I do the math, about 95% of 2019 EBITDA in the quarter, which itself was, I think, a multiyear high. And that's in spite of the higher marketing, Gavin, you mentioned the supply chain inflation we've been talking about, elective cost of some of these economy brands.

So just if you – I know you've already addressed it once, but if there's anything you can kind of elaborate on a little bit further, just to give us more confidence and build that bridge, not so much to 2019, but just – sorry, 2020, but thinking back to a 2019 base when things were more normal because it feels like a pretty big step-up relative to the run rate year-to-date. And I guess, underneath that question, is that 1 million barrels per week shipment velocity that you called out for October. Is the implication in the emphasis on that to say that you expect to be able to maintain that for the duration of the fourth quarter? Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Steve. Let me see if I can try and help you without repeating everything I just said. I mean I would again though say we wouldn't give you the guidance if we didn't believe we would hit it. I don't – that's just not how we operate. Shipments is obviously, an important factor in this. And getting back to 1 million barrels a week is an important milestone for us that – but just to give you some dimension, that's kind of the level of shipments that we would have as we head into summer. So, we're doing a really nice job so far in October of rebuilding our distributor inventory levels and inventory days.

And already, many of our SKUs are close to where we would like them to be. It's not 1 million barrels every single week because obviously, the Thanksgiving, we would shut the Thanksgiving day and there's Christmas Day and so on. So, it's not a one size fits all for every single week, but that's an important component.

From an on-premise point of view, in both – in all of US and Canada and Europe. I mean, this is performing better than it has in previous quarters. From an NSR point of view, we in the US, we're at approximately 85% of 2019 levels in Q3. And in Canada, on-premise restrictions have eased back a lot and volumes are back up to close to 80% of 2019 levels.

And as I said, the UK and Central Eastern Europe from an NSR point of view, is close to 100% of what it was in 2019. And the fourth quarter last year was a very, very tough comparison for both Canada and for Europe. Our NSR per hectoliter when you compare it to 2019 is going to be meaningfully up because of the premiumization efforts that we've had.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. That is helpful. Thank you. Thank you for the color.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Steve.

Operator: The next question comes from Laurent Grandet of Guggenheim. Your line is open. Please go ahead.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Yes. Good morning. Thanks for the question. So, again, I'd like to come back to the seltzer comment, but probably more, I mean, focus on what you are doing. You would be launching Topo Chico nationally beginning of the year, expansion into Margarita and some more flavor extension in Vizzy.

So, you used to give the Street kind of your objective in terms of market share. Could you share with us what your objective for next year and what you are trying then to reach with those line extensions.

And then, probably, if I may, I mean, on the Beyond Beer. You mentioned about the 1 million case and it start to be meaningful. So how should we think about the economics for you guys of those brands? I'm thinking more about La Colombe and ZOA. Thanks.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Laurent. Look, on your seltzer question, we have made and we continue to make great progress against our share goals that we have for hard seltzer. We've grown, as I said earlier, our category share over 50% since the beginning of the year, and we continue to see positive trends.

As I said, in the latest IRI read, we're almost up 7.5%. And that's despite limited distribution for Topo Chico and despite the fact that we are cycling about 1 percentage point for Coors Seltzer, now that we're out of Coors Seltzer.

And our ambitions just don't stop at double-digit share, right? We've got the national rollout of Topo Chico coming as well as some really great innovation in both of our seltzers and some of which we've announced and some of which we haven't.

And, we already obtained share in a number of states and in a number of key retailers. In Canada, we have almost hit our 10 share goal already with Vizzy and Coors Seltzer. And we've got the same innovation and Topo Chico coming in the pipeline next year as well. So, we're – as I said, we're working hard and we're making real progress against our seltzer goals, and we love our differentiated brands that we've got in that space.

And as far as Beyond Beer is concerned, it was 2 million cases, and that was just the non-alc space, Laurent. So, we've got – the Latin American business is growing very, very well despite some of the coronavirus challenges that they've got down there. And that operates in the above-premium space.

Within the non-alc space, we haven't disclosed the economics of our agreement with both of those companies. But you can rest assure, we wouldn't do it if it wasn't profitable and as the business expands, so we start getting scale for brands like ZOA and for La Colombe.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Okay. Thank you. That's helpful. Thanks.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Laurent.

Operator: The next question is from Bryan Spillane of Bank of America. Your line is open. Please go ahead.

Bryan D. Spillane
Analyst, Bank of America Merrill Lynch

Q

Hi. Thanks operator. Good morning, Gavin and Tracey. I just have – I guess, just a question around marketing, just two points that I'd like you to cover, if you can. One is, just with the step-up in marketing investments this year. Are we now at a place where this is a good level, meaning the reinvestment has been made, and this is a good run rate? Or is there room or opportunity to increase that marketing investment more beyond 2021?

And then, just with Coors Light specifically, Gavin, can you talk about in the US given the investments you're making there. Just kind of where you stand in terms of, I guess, share of voice relative to maybe some of its direct competitors, because it appears that you're gaining more impressions or you have more impressions, but just wanted to see if that was accurate?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Bryan, and good morning to you. Look, I mean, we obviously continue to believe deeply in the power of investing behind our brands to drive awareness and increased consideration, attract new consumers into our space.

And we've aggressively shifted our media spend over the past few years to channels where our consumers are. So that would be the digital space. And if you go back a few years, our spend in that area I wouldn't say – I wouldn't use the word minimal, but it was not a lot.

And we spent more than half of our marketing spends in those channels, at this point in time. We will continue to invest what we believe is the right amount of marketing behind our brands.

And if you remember, when we announced the revitalization plan, we said we wanted to spend more behind our core brands, that'd be Miller Lite and Coors Light. Coors Light in both US and in Canada and in Europe, behind our brands like Carling and Ozujsko and Staropramen, Pravha and so on.

And so, we intend to do that. And we actually – we are seeing the benefits of that. I mean we – I've talked a lot about how we feel about Coors Light. And we're seeing very strong performance out of that brand, driven by the success of our Made to Chill program.

So yes, based on the strong performance, the confidence that we've got in the campaign and the brand, we will continue to fuel their momentum with ongoing media support. I think that was – I think there was a questions that are covered here, Tracey?

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.
A

Yeah.

Bryan D. Spillane
Analyst, Bank of America Merrill Lynch
Q

Yeah. I was just – just to be clear, in terms of the marketing, like the step-up in marketing investment that's happened, since you announced the revitalization plan, we're pretty close to that stepped-up level now.

Now whether you invest more or not maybe a function of just where the business is going, but the – that initial sort of bump is now going to be in the base as we exit 2021.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.
A

Per hectoliter will be a little lower this year, right? Because it's still a little bit noisy this year, Bryan, given that in the first part of the year, many of the things that we would sponsor, we didn't because they weren't there. So some of the – particularly on the local marketing side of life with fairs and festivals, and some of the sporting events in the beginning part of the year weren't there. So I wouldn't say it's a totally clean year, but we have stepped up our marketing spend this year. We have stepped it up in Q3. And we will step it up in Q4 as well.

Bryan D. Spillane
Analyst, Bank of America Merrill Lynch
Q

Okay. Thanks, Gavin.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.
A

Sure.

Operator: Our next question comes from Kevin Grundy of Jefferies. Your line is open. Please go ahead.

Kevin Grundy
Analyst, Jefferies LLC
Q

Great. Thanks. Good morning everyone. Gavin a bit of a longer-term question building on some of the themes that you've talked about, but specifically, how you're defining success in the US over the next three to five years? So through the revitalization program, you're clearly doing a lot of the right things and seeing tangible results which is encouraging, emphasizing Beyond Beer. I think you said the Above Premium is now 25% of the portfolio, and that grew nicely in the quarter, which is great.

The crosscurrent, of course, is the leverage to the economy, which continues to have demand headwinds. Light continues to face demand headwinds. Although to Bryan's question a moment ago, the market share trends with Coors Light have been encouraging. So years ago, I think the company put a stake in the ground and indicated it could get back to flat volumes in the US. I think it's – the decision was made to kind of subsequently walk back that target. But as we sit here today, what objective measures would you like investors to anchor to in terms of how you're defining success in the US over the next 3 to 5 years? So, thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks Kevin. Yes, you're bringing out a statement that I made, I think in 2015, about being flat in volume and growth. And obviously, our revitalization plan, our focus is on revenue, not necessarily volume. And the quality of our revenue and changing the shape of our portfolio is what is important to us now. So for me, what success looks like over the short, medium and long-term is that, we're driving sustainable top line revenue growth and at the same time, driving our profits. So it's not an either or for us, it's a both end. And we're going to do that, as I've said, by focusing in on our core, so that would be Miller Lite and Coors Light. And we've talked a bit about the success of how are we doing with the Coors Light and in particular, in Canada and in the US, but also our core brands in our European markets.

I mean a real success story for me is what the team has done with Ožujsko in Croatia. It was a brand that was in long-term decline, and they've turned that around and have been growing it nicely behind our increased focus behind core. Changing the shape of our portfolio at the Above Premium levels was our second priority. And the third priority of Beyond Beer is coupled with Above Premium, right, because we're only going into Above Premium, Beyond Beer areas. So whether it's the success of our efforts in seltzers or new brands like Madri and Praha in Europe or Blue Moon Belgium White and LightSky in the United States, or ZOA and La Colombe.

I'd like to see the shape of our Above Premium portfolio to obviously be bigger than 25%. We've got an internal goal yet, which we haven't shared externally. But obviously, we would like to see that grow to a higher level. So, at its highest level, top line, bottom line, sustainable growth and a changed portfolio shape define success for us, Kevin.

And given everything that we've experienced over the last two years, I'm very pleased with the progress that the team has made overall against our revitalization plan. If you you'd ask me, if I would be happy, we are where we are in the sort of first months of the gloom of the pandemic, I would have taken it in a heartbeat, and we're in a good place.

Kevin Grundy
Analyst, Jefferies LLC

Q

Good. Thanks for the color, Gavin. Appreciate it. Good luck.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks Kevin.

Operator: The next question comes from Kaumil Gajrawala of Credit Suisse. Your line is open. Please go ahead.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, good afternoon. Thanks for taking the question. Gavin, if I may ask you to maybe just simplify for myself and for investors, you kind of opened talking about the success of a lot of these innovations. Can you maybe aggregate them and talk about how much they collectively contributed to your growth? I think you said 2 million cases for soft drinks, but you maybe add Topo Chico, add Yuengling some of these other things in terms of how much they're contributing.

The other thing you kind of mentioned at the very beginning was much of the volume decline is linked to your intentional decision to de-prioritize a series of sub-premium products. Can you talk about how much of a drag that was if you were to add that all up, and if you could help us get an understanding of how the underlying business is doing?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Sure. Kaumil, let me try and answer that without actually giving you all of our brand volumes, because we don't do that. But let me start off by saying that our share loss per IRI in the third quarter was down 90 basis points. 80 basis points of that was economy. So 90% of our volume losses or reduction, should I say, is economy. Most of that or a large part of that is very deliberate decisions that we've made to simplify the portfolio. So maybe that will help just to start us. 90% of the...

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

That was for share, right? Not for volume – for volume share, not for absolute numbers. Just to make sure I heard that right, 90% of the volume share was linked to the economy, is that right?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

It's right. And 80 basis points of the 90 basis points in share we lost would have been economy. And 90% of our US volume losses was economy. So I think it's safe to say, we can say most of it, right?

From an individual performance point of view, we're not going to break out every single volume element of our Above Premium portfolio. But we've got real pockets of strength and growth in our Latin American business, which is Above Premium. Sometimes that can be – it depends whether it's export or licensed. Certainly, export is performing particularly well for us. ZOA and the non-alc space is off a relatively low base. So a large chunk of that two million cases is all incremental, which is still relatively small, but growing particularly strongly, Kaumil.

From a Yuengling point of view, from a third quarter point of view, it was really just in the market for a month, right? And we don't obviously take all of that volume into our business, because we're in a joint venture with the Yuengling family. But our US Above Premium was up high-single-digits in Q3. And so, the strategy is coming together, Kaumil, that's what I would tell you.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, great. Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Sure.

Operator: Our next question comes from Chris Carey of Wells Fargo Securities. Your line is open. Please go ahead.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, Gavin, Tracey. How are you? Thanks for the question. It's following a recent line of questioning just around the economy SKUs and how you see the mix of the portfolio evolving over time and the focus on value over volume and how that can play out in the near term. I guess, if you look at your portfolio today and you think about your aspirations for the go forward on getting to a volume growth basis, do you still see aspects of your portfolio, which you potentially need to improve? And I suppose there always are these opportunities, but maybe more strategically.

And then, if that is the case, do you see the premiumization strategy over time as enough to offset some of these decisions and then it's all sort of connected to the volume dynamic, but the share gains are well taken in some of your most important brands.

But I guess the other side of that is just the categories have been under pressure, tough comps, and there are other aspects that are in play there. But do you have any view on where you kind of see category growth going forward? I know it's not something that you can necessarily control, but that is an important dynamic here. So if I put all that together, there's this dynamic around the portfolio, how you see it today. But premiumization could be enough to offset future decisions and just maybe your latest thoughts on the categories which you play would be helpful. So thanks so much.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, look Chris – look, I think, from our perspective, we think we've made the right move in the economy space to reduce complexity and really focusing on four key economy brands. We've long said that we believe all segments all matter to our consumers and the decisions we've made around our economy portfolio are not meant to change that view.

So we still have four key brands in that – four key economy brands in that space that we're focusing on like Keystone Light, Miller High Life, Steel Reserve Alloy and the Tiki Series and Icehouse.

And we will continue to focus on those brands and having reduced so much complexity out of the economy portfolio, it's allowing both ourselves and our distributors to really hone in and focus on performing very well with those four key brands in the economy space.

From an overall segment point of view, we believe that seltzers are here to stay. We believe that there is growth to be had in seltzers. We believe that there is strong growth for us in the Beyond Beer space. We recognize the need to offer products beyond traditional beer, and that's why we're putting so much focus on that.

We believe that innovation and great innovation around beer and around seltzers will add value to both the category and ourselves over the next three years, and that's why we're putting so much emphasis on a really tight and focused innovation portfolio.

Remember, Chris, that our focus is not so much volumes, right? It's really about driving revenue and value, and that's what we're doing. So I wouldn't expect our volumes to be positive necessarily because of the actions that we've taken in the economy portfolio. But we think they're right. And then I think to address your other questions.

We don't have any plans to do any more big moves in our economy space. We went as deep as we believe is necessary. And now we're going to focus in on the four key ones. So thanks, Chris.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Thanks for all that, appreciate it.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Sure. I think we have time for one more question. I'm getting that signal.

Operator: The final question we have time for comes from Brett Cooper at Consumer Edge Research. Your line is open. Please go ahead.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

Thanks for taking the question. Just, Gavin, I'd love to get your perspective on the sustainability or durability of your efforts into the flavored side of the world, whether that be seltzer, F&B, ready-to-drink spirits given, I think, historically, the lack of success that the industry has had.

And I know you won't get into talk about other people's brands, but maybe what you see either qualitatively or quantitatively with brands like a Vizzy or Topo Chico relative to some of the F&B products that you've had historically that haven't been able to retain their volume and sales that they initially logged. Thanks.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Okay. Yeah, look, I mean, I think making sure that we've got differentiated brands that the consumer actually wants is a big factor for us, right, because we do continue to see strong performance from Vizzy. There's lots of distribution runway available for it. It's holding firm as the number four brand in the space. And Topo Chico continues to deliver. It's currently in just 16 markets and remains the fastest turning brand in Texas, the third fastest turning brand nationally. And we believe there's a very strong opportunity for seltzers to bring Latino drinkers into the space because they're relatively under shared. And we think that Topo Chico plays really, really well into that space, given the data that we have.

So I think the key for us is differentiation. We've been preaching it for a while now, Brett, we wouldn't have been as successful as we have been in the seltzer space. If our brands weren't differentiated, if there was just a me-too with what was there, and so the brands that we brought are differentiated, that are fast moving, and we have real differentiated innovation coming behind both of those brands in the New Year. So we think there is lots of upside for our portfolio in this space.

And as I said, we also believe that this is a big segment that is going to be here to stay. And we intend to be a meaningful player in it. Thanks Brett.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

Thank you.

Gavin D. K. Hattersley

President, Chief Executive Officer & Director, Molson Coors Beverage Co.

Thanks everybody, for joining the call.

Operator: Certainly...

Gavin D. K. Hattersley

President, Chief Executive Officer & Director, Molson Coors Beverage Co.

Okay. Thanks, everybody, for your interest. And if there are any follow-up questions, our Investor Relations team would be happy to take them. Thank you.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you.

Operator: This concludes today's call. Thank you for joining. You may now disconnect your lines.