08-Jun-2021

Molson Coors Beverage Co. (TAP)

Deutsche Bank Access Global Consumer Conference

Copyright © 2001-2021 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Good afternoon and good evening, everybody. I'm Steve Powers, the Head of Deutsche Bank's US Consumer Goods Research, and I'm thrilled today to welcome Molson Coors Beverage Company back to the conference. Joining us today from Molson Coors are Gavin Hattersley, the company's Chief Executive Officer; and Tracey Joubert, the company's Chief Financial Officer. So, Gavin and Tracey, thank you very much both of you for joining us.

Before we begin, just a logistical point for those of you who are listening in, if you're joining via the conference portal, you should see the ability to submit questions in the window in front of you. Please feel free to make use of that anytime, and I'll do my best to integrate your questions into the conversation as we go. So, again, Tracey and Gavin, thank you for your time.

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Maybe, Gavin, we'll start with you. And it's been nearly two years since it was announced that you would succeed Mark Hunter as Molson Coors CEO, and it's been quite an eventful two years. As you reflect back on that journey, maybe just talk us through what you're most proud of in terms of what's been achieved and where you still see further opportunities against your going-in plans.

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

A

Thanks, Steve, and thanks for having Tracey and I. I'd much prefer if this was in Paris...

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Me too.

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

A

...rather than at the Milwaukee brewery, which is where we are. But nonetheless, good to be with you all. Look, Steve, I am so proud of what this organization has done over the 18 months that I've been in charge and since we launched the revitalization plan, especially when you take it in the context of everything that we've had to deal with over the last 14 months. Some of it, everybody else has had to deal with it, and some things, we've had to deal with, which were out of the ordinary. The goal of the revitalization plan was for us to drive top line – sustainable top line growth and sustainable bottom line growth at the same time. And everything we did last year has laid a tremendous foundation for us to achieve exactly that over the long-term.

If you look at the five pillars of our revitalization plan, obviously, the one was to generate cost savings by streamlining our organization, removing the bureaucracy and just making us easier to do business, quicker decision-making, and at the same time, generating the savings we needed to invest in the other four planks. And if you – the fourth plank was capabilities. We've made tremendous progress there, particularly in the digital space. Some of that was forced on us by the pandemic frankly. It actually accelerated some of what we were trying to do. So, really pleased with the progress we've made there.

And then, if you look at the investment behind our brands, we – obviously, we wanted to increase our investment behind our core brands. It didn't take up a lot of the $150 million that we wanted to put behind those four planks, but it'll pick up a small chunk. And if you look at the progress that Miller Lite and Coors Light have made in terms of brand health, in terms of share growth, Miller Lite gained share of the total beer category at several reads last year in the public data despite the explosion of seltzer. So, really pleased with the work the team has done there. And then, in the above premium space and the beyond beer, that's where we've made most of our progress.

Steve, you're asking me to pick a favorite child on what I'm most proud of. I guess I'm most proud of our whole team and how they have come together during this process. We did launch [ph] new values (00:03:37) in January of last year, putting people first, and we've lived by that mantra all the way through and I think we've made tremendous progress. So, you just look at the work we've done on seltzers and how we've accelerated the share

Copyright © 2001-2021 FactSet CallStreet, LLC

there; the Blue Moon LightSky, the top new beer innovation last year, the fastest-growing from a share point of view in craft this year; and then non-alc, wine and spirits, the cannabis-infused beverages. I could [ph] absolutely go (00:04:07) for a while, Steve. So, let me just stop there. I'm proud of our people and how they've reacted to this.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. We'll get to a lot of that as we go. But before we delve in though, Tracey, maybe a similar question for you. Just as you reflect back from a financial perspective, just how you would frame the key accomplishments, maybe any key changes that you've implemented as a result of what's taken place over the last year or two, and then your future priorities with respect to capital structure and cash flow and capital deployment.

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

A

Yeah. Thanks, Steve. From a financial perspective, we also are proud on what we delivered. Not only did we achieve what Gavin has just discussed since implementing the revitalization plan while significantly improving the health of our balance sheet and our financial flexibility. Long-term, our priorities haven't changed from a capital allocation point of view. We've always spoken about that in the three buckets. So, first to invest in the growth of our business behind our brands; also to strengthen our balance sheet, so that would increase paying down our debt; and then the third bucket is really returning cash to our shareholders. And so, as we look at those buckets, we continue to use our profit after capital charge model, which we've done for a number of years, making sure that we do give the best return to our shareholders. And overarching is to maintain our investment grade. That's always been important to us and will continue to be important to us.

In terms of where we're really looking to invest and what's changed, certainly, the revitalization plan is enabling us to invest more behind our brands, investing more behind growth opportunities, as well as making sure that we are investing in our breweries, modernizing our breweries. So, for example, our Golden Brewery is undergoing a major modernization project as we speak. We're completing our modern brewery up in Montreal, and last year, we brought our new Chilliwack brewery online up in Canada. And all of those investments are making sure that we can deliver top line growth. So, it's all supporting our above premium ambitions, as well as some of our innovations and some of the beyond beer initiatives.

I think what I'm really proud of and what we'll continue to do is to continue to pay down our debt. In the 12 months ended March of last – of this year, sorry, since March of last year in the 12 months, we've actually reduced our debt by over $1.1 billion. And as we said in our guidance after our Q1 earnings call, we have got leverage targets out there. We plan on achieving around 3.25 times by the end of this year and then below 3 times by the end of next year. So, again, that just shows the investment grade is important to us and continuing to strengthen our balance sheet will remain a focus. And then finally, the bucket around investing – sorry, returning cash to our shareholders, as we said on our Q4 earnings call and we reaffirmed again in Q1, we believe that the progress that we've made last year in terms of strengthening the balance sheet and making sure that we had adequate liquidity, we do expect the board to be in a position to reinstate a dividend in the second half of this year.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. So, I do want to get to some of the growth drivers that you both mentioned. But just in terms of setting the stage, the context is rapidly changing and important. So, what – just, Gavin, I guess, maybe a question for you. Just in terms of what you're seeing and how you're thinking about the pace of reopening from here in the

Copyright © 2001-2021 FactSet CallStreet, LLC

US, in Canada, and how that varies versus Europe, and the implications of how you're thinking about the back half, but also how you're thinking about investments into 2022 as well, just both the near and long-term implications of the pace of reopening and recovery as you see it.

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

A

Yeah. Sure, Steve. Look, from a reopening point of view in the United States, obviously, it varies by state, with Florida, Texas probably ahead of everybody else from a timing of opening. California is probably the furthest behind, and the Midwest states playing catch-up on Texas and Florida pretty quickly. We're actually ahead of where we thought we'd be from an on-premise reopening point of view today than I would have said even a few months ago. We – probably where we thought we'd be by the end of summer, we're probably there right now in terms of how stadiums, fairs and festivals, events are reopening to full capacity.

Canada is the furthest behind. We're still pretty much in lockdown phase there. So, we're a little bit further behind in Canada than we were expecting. And then UK, the government did a really nice job of laying out a plan and they stuck to it. So, April 17, it opened up for outdoor dining. Mid-May, it opened up for full indoor dining. And hopefully, in a couple of weeks' time, things will be back to normal in the UK. And in Central and Eastern Europe, certainly less affected than the UK, I would say we're pretty much where we thought we'd be. Many of the countries have opened up. They're trying very hard to get tourism going, because it's such a big driver of the economy in many of the countries in which we operate.

Implications for our business, look, obviously the biggest positive impact for us is in the UK. 75% of our revenue is in the on-premise in the UK, and we've seen strong pent-up demand. Some of the bars and restaurants that opened up even for outdoor dining were nearing 2019 levels from a volume perspective. More bars and restaurants have opened than we necessarily anticipated. We were thinking about 80% in total would reopen. I think by the time we get to the end of this, we'll probably only have about a 5% to 10% attrition rate with the volume picked up by the others. So, really pleased with the on-premise performance in the UK, and that's really important to us there.

About 50% of Central and Eastern Europe's volume is on-premise, somewhere in the tourism industry is an important factor to play there. And then, obviously, our biggest market, in the US, about 17% of our business was on-premise, that's 2019 pre-pandemic levels. We haven't obviously got to there yet. We do believe that we'll get back to 2019 levels in all of our markets frankly over time. Whether that's six months or nine months, it's hard to say, but we're certainly ahead of where we thought we'd be.

In terms of the impact on our business, really positive, our margins are higher in the on-premise mostly because of the brand portfolio which we have in the on-premise. Brands like Blue Moon Belgian White were hit hard by the pandemic last year, so was the brand like Peroni or even Pilsner Urquell, high margin brands that had less of an off-premise focus. And you don't pick that up in the industry reads, because it doesn't pick up data real well in the on-premise. And so, certainly we're expecting a really nice year from – with Blue Moon Belgian White and Peroni and Pilsner Urquell. And then, Miller Lite and Coors Light, from an index point of view to our average, also are over-indexed in the on-premise. So, all very positive signs for us from an overall business point of view.

And then, the last point I'd make here, Steve, is the pandemic really crimped our style – or cramped style in terms of how we did innovation. Notwithstanding that, Blue Moon Belgian White was the fastest growing beer brand last year. But it could have been so much better if we had sampling opportunity. The liquids of Blue Moon Belgian – of Blue Moon LightSky and Vizzy and Topo Chico Hard Seltzer and so on is really compelling. We think we've got

Copyright © 2001-2021 FactSet CallStreet, LLC

some really compelling products there. And with stadiums opening up and events and festivals, these are all wonderful sampling opportunities for us there. We're excited about the opportunity that brings for our innovation.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

There's – in the markets like [ph] – or at least some (00:13:13) pockets of the US where you're ahead of your month ago – a couple of months ago plan. Does that complicate – you were facing some supply constraints already. There was the adverse weather in the first quarter. There was a cybersecurity issue that you're trying to recover from. Does an accelerated reopening add – it's a good thing, but does it add executional challenges or are those two – are those issues distinct?

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

A

It actually has the opposite effect, Steve. The quicker on-premise opens, the more kegs we sell. Our business is not necessarily designed in any of our markets for 100% of it to be packaged product in the off-premise. So, ironically actually the exact opposite. The quicker on-premise opens, the easier it is for us from a keg point of view. You referred to some of our supply challenges. Look, we laid out a very clear recovery plan in the weeks after the cybersecurity attack. And the supply chain team has done a tremendous job of actually getting ahead of that plan. So, we're ahead of where we thought we'd be. We're shipping over 1 million barrels a week. We have been doing that for quite some time.

We really only did that in the first weeks of the pandemic last year when we had that huge spike in – of offtake in March of last year. Cans, there is no can constraint from our perspective at this point in time. So, we're ahead of that recovery plan and very pleased with the progress that we're making there. It didn't impact our innovations in any way. We've met full order offtake on Blue Moon LightSky and Vizzy. Topo Chico is a separate issue. That's just – it's a spectacular successful launch and we're playing catch-up from that perspective. [ph] Surely you're going to have (00:15:05) out of stocks on economy brands, because we've made choices, Steve. Certainly, you're going to have a very positive impact on our overall brand mix and shipment profile. But I'd rather be selling a case of Miller Lite than a case of a low-margin economy pack, and some of that's showing up as well.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Yeah. No, that makes sense. So, those core trademarks, the Coors, Coors Light, the Miller portfolio, just how are you feeling about the brand equity there and the trajectory there? On-premise coming back certainly helps those brands and that part of the portfolio. Relative to where the consumer is today and relative to competition, just your overall prognosis on that core part of your portfolio?

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

A

Yeah. I'm very pleased with where we sit at the moment, Steve. The brand health of both of those brands is good. We've had very compelling marketing on both of those brands, putting them apart. It's very clear what each brand stands for right now since the new team came together under Michelle's leadership. I think there could be no more accusation that the brand jumps from one idea to the next. It's all very – it's very consistent and the team follows through really, really nicely. We're growing segment share. Obviously, our goal is to grow overall beer category share with both of those brands.

Copyright © 2001-2021 FactSet CallStreet, LLC

And we actually did that last year with Miller Lite on several industry reads. That's notwithstanding this huge surge in seltzers, right. So, we were very pleased with that. Obviously, the job is not done until we get both of those brands growing overall beer category. But in terms of how they are performing, we're very happy with where they are right now, and we don't have can constraints, as I said. We lived with that for a large part of last year, just like everybody else in the industry, with raw material input shortages. We don't have that this year. So, they're in good shape and I'm very pleased with them.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. And as you say, the keg business coming back only helps. So, that's great.

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

A

Exactly. Absolutely.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. When we get to beyond beer – or just broadly speaking, you've got the $1 billion revenue target by fiscal 2023 out there. I guess where are we today, just to give – just to update us on sort of the starting point? And what – so, what are the biggest building blocks, the most critical milestones for you guys to hit in your own minds between now and that objective?

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

A

Steve, we laid a lot of the foundation last year for hitting the $1 billion revenue goal by 2023. There's obviously a core foundation to the emerging growth business with all of our craft companies. And we're looking for growth out of those as well. We've launched Hop Valley's Stash Series nationwide, and certainly Revolver and Saint Archer and Atwater and Terrapin, along with Hop Valley – as the on-premise comes back, that is benefiting all of those five craft companies in a meaningful way.

We've got our international business, which is doing exceedingly well, Miller Lite, Coors Light, in some markets Miller High Life, we're launching some of our innovation down there. They all operate in the above premium space outside of the US. So, that's positive for us as well. But a lot of the growth is going to come from spaces we've never been in before. So, wine and spirits and non-alc and our cannabis-infused beverages are where the lion's share of that growth is going to come from. If you look at cannabis up in Canada, we have the number one market share from a revenue point of view. And we got there in a very short space of time since launch and we've managed to hold on to that.

We've got 6 of the top 10 brands there. We've expanded that joint venture with HEXO under the Truss name into Colorado where we're doing CBD. It's got the most established laws, and we feel very comfortable doing that. And then, in the non-alc space, we've got the investment with Dwayne Johnson in ZOA, which is – we're very excited about that given the partner we've got, given the differentiated product that we've got. We think we can do big things with this brand in a very big market. The energy space is $16 billion in the US. We've got a differentiated partner. We've got a partner who is not your typical celebrity partner. He's lending his name to us. He's invested in this business. He owns a big chunk of the business and he's invested in the brand.

Copyright © 2001-2021 FactSet CallStreet, LLC

And then, we've got our partnership with La Colombe, which has got off to a really nice start. We're well on track with the commitments we made from a placements point of view in C stores and drug stores. And then, we've dipped our toes in the water with wine and spirits with the launch of Superbird, which is a super, super, super premium spirits-based seltzer. So, there's a lot of exciting stuff going on in emerging growth, and we're very happy with where we are right now.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. And Tracey, the structure of a lot of those partnerships and relationships and investments that you guys are making, they're quite varied. How should investors think about the financial impact of this new revenue as it layers on, both from a profitability standpoint and a cash contribution standpoint? Is this all a profit and cash kind of margin-accretive growth or is it – does it run the gamut? What's the lay of the land there in terms of how we all should think about it from the outside?

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

A

That's absolutely right. They're all structured differently. But they all play in the above premium space. So, higher margins for sure. And as we bring some of these things in-house, that is only going to add to the margins. But let me start with Yuengling, which is the joint venture that we have with Yuengling. It's a 50/50 joint venture. That's going to be accounted for under the equity method. So, you're not going to see it on the revenue line, but we are planning on ways to show the revenue, not going to be in our financials but certainly on earnings calls. We got to find a way to actually talk to the revenue of that business and get rid of the volume in that. So, that's one. It will obviously contribute to the bottom line but not the top line.

If I look at things like Topo Chico for example, that's a multiyear licensing agreement with Coca-Cola. We'll manufacture and distribute Topo Chico hard seltzer in the US, not including Puerto Rico. Coca-Cola is the brand owner, but we oversee the marketing, the sales, the distribution activities in the US for that hard seltzer brand. So, that's when you're going to see the contribution on top and bottom line. That one is a sort of phased rollout. We launched it again and we couldn't imagine how successful the launch was going to be. We were very optimistic, but it exceeded our expectations. So, really strong demand for that brand.

We're currently in 16 markets, nine states and seven cities. And the initial demand is really strong. I'm sure you're heard us speak about during the launch we got 20 share in Texas for hard seltzer in the very first week. And so, we continue to focus on that brand and making sure that we have the right supply for that. From a P&L point of view and from a margin perspective point of view, Topo Chico is fully consolidated. So, the margins are a little bit different than our own seltzer brands because we pay Coca-Cola obviously for the concentrates and that type of thing. In the first year, the production is being handled by a third party, but it is our intention to bring the production in-house and that is going to further increase the margin profile for us.

The next one probably is ZOA. The next big one is ZOA there. It's again a distribution deal. We do have a small equity stake in that business as Gavin just mentioned. But it's a little bit different than the traditional distribution deal because we do have that equity stake. We haven't specifically disclosed the economics around that one. But certainly it plays in the above premium space. It's a rapidly growing segment. So, the price points are really attractive and again, same field of margin dollars to go around with that business and one that we're really excited about.

Copyright © 2001-2021 FactSet CallStreet, LLC

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's great. That's very helpful. We drilled down on seltzer, the category is obviously hugely topical for investors in the near term, lot of questions in the long term, different questions but still a lot of them. What's your prognosis on the – both the current health of the seltzer category relative to your expectations maybe a couple of months ago; lot of focus on the rates of the category growth and some deceleration relative to some of the more optimistic expectations coming into the year? How does this stack up versus your expectations? And then, as you think longer term about the categories opportunity set both in the US and ultimately overseas, how – where does the rank in terms of your priorities for future growth? How important is seltzers to the long-term or the medium-term trajectory of Molson Coors?

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

A

He didn't put a name on that one. Do you want me to take that one?

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

A

Yeah. You take it.

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

A

Steve, look, I mean, from an overall category point of view in the US, we were always saying that we didn't think it was going to carry on growing at these meteoric rates. So, that was never in our plans. I understand why some other folks might have been making those statements, but it was never in our plan that it'd grow this as fast as it was. And some of the slowdown that you're seeing right now is obviously if there was a beneficiary of the pandemic last year, it would have been seltzers because it's so under-indexed in the on-premise and over-indexed in the off. And with on-premise shut and they're migrating to the off-premise and you've got a disproportionate benefit, it's running up against some of those comparators right now.

And what does that mean is there's an opportunity to expand the segment in the on-premise and with our chain selling team and capabilities and the two real winners that we've got right now in our seltzers portfolio, we think we can do exactly that. But that is some of the reasons why it's slowed down now. Whether it's growing 10%, 20%, 30%, 40%, right, it's the fastest growing segment in the overall beer category and we certainly intend to be a player there not just in the United States either. I mean, I think some folks forget we've got ambitions on seltzers that's much greater than what we've just announced, right, which is that we want to be a 10% share by the end of this year.

But we're not going to get to the end of this year when we get to 10% and say, job done, pat ourselves on the back and sit there, right. We have much bigger ambitions than that. That's a year one goal. We've expanded Coors Hard Seltzer and Vizzy up into Canada. That's probably – Coors Hard Seltzer is the brand we've got the most work to do in the US from a seltzer point of view. But ironically in Canada, it's doing really well, in some markets better than Vizzy and in some markets Vizzy performs better than Coors Seltzer. So, it's somewhat of a different story up there.

We've just announced the expansion of our capacity up there about 300%. We've launched – we had – we launched with Bodega Bay in the UK last year. We were one of the first out of the blocks. We've recently launched Three Fold. We announced – in fact this morning, we announced that it's going to be our biggest investment

Copyright © 2001-2021 FactSet CallStreet, LLC

innovation in the UK. And certainly as long as many of us can remember, we're going to invest more than £5 million in that brand and its launch. And we're excited about the opportunity that it brings us.

And then in Central Asia and Europe, we've got definitive first-mover advantage with a new brand called Wai which we've launched in several of the markets there. In the US, our true clear winner is the Topo Chico Hard Seltzer and Vizzy. We came into 2020 with less than 1 share. We exited 2020 with just a tick under 4 share. We're already over 6 shares. We've grown our share by 50%. I know there were a lot of doubter out there that we wouldn't even be – I mean who would have thought we would be at 6 share before we even get halfway through the year, but we did. And we're well on track to get to our 10 share target.

Topo Chico, as Tracey said, I mean, that's a – it's had a spectacular launch. It's obviously put us a little bit behind the eight ball in terms of supply, but we're working really hard to get that back on track. We've got very limited – from a state's point of view, we're only in nine states. So, there's a lot of whitespace for us to expand that brand when we've got the supply in a place we want it to be. Lots of distribution points, lots of demand for Topo Chico Hard Seltzer in the on-premise in states like Texas. And Vizzy only had one SKU last year. Now we've launched the second variety pack. We've launched the lemonade which is right up there with close to Truly as the fastest turning lemonade seltzer. So, there's a lot to be excited about in our seltzer portfolio and we're pushing hard on it.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

On the Topo Chico side, what is your – I guess what is the line of sight to that higher – that additional capacity that you'd want need for the brand to live up to its full potential? Have you been able to pull forward some of that into 2021 or is it more about playing for 2022 and beyond?

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

A

Well, we're working hard to get the – together with our various partners in this area to increase our third-party manufacturing. That's where it is at the moment, it's third-party manufacturing. We should have that expanded in the near future. And then of course, we've always said we wanted to bring it in-house as Tracy said. And we're working as quickly as we can to make that happen. I mean, we said that would be next year and we're working hard to make sure it's the front-end of next year. But I think based on the work that we've done, our supply constraints should start to ease in the near future.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And do you think – I mean, are you – how – was Topo Chico in the on-premise always part of your plans or is that becoming maybe more part of your plans as you see the demand for it from the market? How much of the demand you're seeing in on-premise for that product, that brand is expected versus a positive surprise?

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

A

Yeah. Great question. Look, I think it's -I mean Topo Chico as a whole is – I mean, we were expecting big things from it, but it's been a surprise on the upside of those high expectations. And I would say the same would apply to the on-premise. The demand – the on-premise outlets are piggybacking on what they're hearing and seeing in the off-premise and they want that brand in the on-premise. So, I would say, yes on both counts, Steve.

Copyright © 2001-2021 FactSet CallStreet, LLC

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And I guess just as we're talking about the on-premise, I mean it sounds like from some of the discussion around Topo Chico but just in general being ahead of where you expect it to be, in terms of gauging the overall health of the beverage alcohol market, of your market specifically, should we be discounting and maybe thinking about a little bit more glass half full and we're looking at the week-to-week, month-to-month scanner data.

Just as a year ago, we were – we should have been calibrating down because of the onerous on-premise trends. What – how do you assess kind of the normalized rate of growth of your categories as we look through this pandemic? Do we emerge kind of in a similar spot and we just looking backwards, this all becomes sort of noise or do we think – do you think that you've structurally found reasons to believe in faster growth going forward?

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

A

Yeah. So, there's an industry creation in there and then there's a Molson Coors question, right, speaking differently. So from an industry point of view, obviously, the scanner data is not picking up the shift back into the on-premise in any meaningful way, right. And so, the on-premise last year, we had any number of Fourth of July weeks in the second quarter of last year inside of the industry as everybody just migrated to the off-premise pantry-loaded panic bought and so on.

And so, those are the comparisons. It's – the scanner data at the moment is picking up and it's not picking up the fact that almost 80% of outlets are now open. They're not obviously open to all, not – they haven't got the throughput of 2019 volume, but there is a meaningful increase in the on-premise, both from our perspective and from an overall industry perspective. Certainly, seltzers healthy overall beer category drive to flattish to positive growth over the last couple of years. And we certainly – although, as I said, we don't have the sort of triple-digit growth in seltzers in mind when I make this statement. But, certainly, it's going to continue to contribute to our overall growth in the beer category. So, one could expect a similar trend.

From our perspective, we very deliberately have focused on taking complexity out of our organization, out of our breweries. We've stopped some SKUs. We've terminated some brands. Our recovery plan focuses very heavily on our premium light and our above premiums and obviously Miller High Life and Keystone Light along with that. And so, the favorable mix implications of that are good. And because of that, sure, we're losing some economy share. But, as I said earlier, more than happy to lose economy share if it's ensuring that we're maximizing our potential with our premium lights and above premium brand.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. And Tracey, when you think about the positive drivers of mix and of demand coming back in the right spots that helps alleviate some of the supply challenges of before as well as just general revenue growth management priorities of the organization, how does that situates you relative to the inflation that we're all seeing in the marketplace? What's your current outlook on inflation, I guess, is part one of the question? And then, in terms of the levers you have to offset it, perhaps, enabled by some of the dynamics that Gavin just outlined, how confident are you that you can absorb that inflation and emerge just as strong as if you never stopped?

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

A

Copyright © 2001-2021 FactSet CallStreet, LLC

Yeah. I mean, a couple of things. We – on our Q1 earnings call, we spoke about our COGS for Q1 going up 5.6%, and about 470 basis points of that was driven by inflation. And just under half of that was really around the freight. So, our freight has gone up really because of our sourcing of cans from different continents and so that drove freight. But also as you heard I think from all CPG companies how tough the freight market is and that's driven a lot of the inflation as well.

But one thing about Molson Coors is cost cutting is a way of life here. We've always been really good at delivering against our cost savings targets. If you look at us historically, we've got programs out there and we've delivered or over-delivered on them. And our current cost savings program that we announced is to help us offset that inflation, but also to provide a sourcing base behind our brand.

So, the cost savings program that we have spoken about, it's a three-year program 2020 to 2022 and a $600 million. So, last year in 2020, the first year of the program, we delivered $270 million of that $600 million. And right now, we're right on track to deliver the remainder for this year. We expect the $330 million which is left of that $600 million, we expect to deliver that over the next two years roughly in equal cost. And as I said, we're on our way to deliver that. But in addition to the cost savings program, we also have a real – really robust hedging program which helps us offset some of the increases that we're seeing around commodity, so we hedged all the of commodities that are hedgeable and we've got the cost savings program as well and so when we gave our guidance around flex bottom lines, we took all of that into account, and so that bodes into the guidance from a COGS and cost point of view.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. And Gavin, you had mentioned early on how the experience of the pandemic had been sort of detrimental to the innovation plans. You weren't able to do as much as you wanted, you weren't able to get all the sampling out there. Some of the initiatives that you had planned, you ended up pulling back on a bit. As you think forward, given the sort of the financial flexibility, maybe too strong a word but the financial standing that Tracey just described and the dynamics of reopening that we're experiencing at least in the US and hopefully in pockets of Europe as we go forward and ultimately Canada, do you think that that's sort of more normalized reaccelerated innovation pipeline activity is a reasonable expectation for 2022? Or are you thinking about back to a normal if not above normal year of innovation and execution against initiatives relative to 2020, which I think was probably below average in 2021, which is difficult to describe? So, how you think about that arc of innovation?

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

A

Yeah. Look, I mean, last year was – obviously we had to make some tough choices in terms of things that we wanted to do. Hitting into the pandemic, we were going to launch Saint Archer Gold and Blue Moon LightSky for example and it was really apparent to us that doing both of those things in that environment wasn't going to be possible. So, we made the tough decision to put Saint Archer Gold on – we actually hibernated it. With hindsight, I mean the success that Blue Moon LightSky has experienced, I think that was the right decision. But we had a great liquid, we had a great concept there. And as I've said, it was a tough choice. Things like Peroni were a little bit easier, right. I mean, I firmly believe that Peroni in the US can be the next big European beer import. But it's such an on-premise focused brand that when there's on-premise shutdown, we again put all of those plans on ice. Now that the on-premise is coming back, you'll certainly see some of those ideas and investments kind of come back to the fore.

From an innovation point of view, our team has not really stopped, Steve, from working the pipeline of innovation. Obviously, we've got a lot on our plate at the moment from an innovation point of view. But there is certainly a

Copyright © 2001-2021 FactSet CallStreet, LLC

deep pipeline of ideas, both innovating around our existing brands, innovating around our recent innovations and new innovation spaces, which is all on the table. Right now, I think we've got a lot on our plate and executing against that and as I said, pleased with the progress.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. We're at or near the end of our allotted time, so I thank you again for your time. Maybe you had – as a final question, you had mentioned that the experience of the pandemic had forced you – enabled you to accelerate a lot of capabilities building. That might have been the case without the external catalysts. Maybe using that as a leaping off point, give investors a sense of why you're confident that the Molson Coors that's emerging from the experience of 2020 and 2021 is and will be stronger than the company that entered.

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

A

Yeah. I don't want to be too repetitive, so I'll try not to be, Steve, but when we launched our revitalization plan in 2019, we knew it had to be different, right. But I think, Tracey made the point. We've always been good at taking cost out of our business and we've always been able to generate earnings per share growth and profit growth.

But what we haven't and weren't able to do is deliver top line growth, and that's what the – that's why we put the revitalization plan in place. We need to drive long-term sustainable top line and bottom line growth. It's not an either/or situation for us. We want to drive both. It's both/and. And the progress that we've made, notwithstanding everything that's happened over the last year, is just tremendous. We've laid the foundation. We've restructured the organization. We've taken all the bureaucracy out. We're much quicker to market.

I can go on and on and on about how more – much more efficient we are there. The pandemic forced us to actually move even quicker on some of our capability building than we had originally planned in terms of – particularly in the digital and social media space, but also data and analytics space.

And then, we got somewhat criticized last year for the pace at which we were doing deals in the beyond beer space in which – and launching seltzers like Topo Chico and Vizzy and Coors Hard Seltzer and Proof Point. But all of those ideas and deals and partnerships have just laid a tremendous foundation for growth for us. I think we're unequivocally coming out of the pandemic stronger than we went into it, and the revitalization plan was exactly the right thing to do. We were somewhat prescient in our timing I would hate to have been trying to do a restructuring in the middle of the pandemic. We got that done beforehand. We launched new values to our focus, with as I've said, putting people first right at the forefront of that. And that really was a north star for us during all of the disruption that we faced in 2020. So, I'm confident that the plan that we put in place, the investments that we're able to make, the more financial flexibility that we're seeing now given how we're paying down debt is setting us up for real success with our revitalization plan.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

We have to leave it there, but Gavin and Tracey, thank you again for your time. Thanks to everybody who's listening for your time as well. And I wish everybody a great remainder of the event. Thank you.

Copyright © 2001-2021 FactSet CallStreet, LLC

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thanks, Steve.

Gavin D. K. Hattersley

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

Thanks very much, Steve.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Thank you.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.