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Molson Coors Beverage Co. (TAP)

UBS Global Consumer and Retail Conference

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CORPORATE PARTICIPANTS

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Sean King
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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Sean King
Analyst, UBS Securities LLC

...Sean King, Americas Beverage Analyst at UBS. I'm very pleased to welcome the Molson Coors Beverage Company to the UBS Consumer and Retail Conference. Joining us today are CFO, Tracey Joubert; and Greg Tierney of Investor Relations Team.

Molson Coors is in the middle of a revitalization program designed to premiumize the portfolio, accelerate top and bottom line growth. The company recently reported fourth quarter 2021 results that included 13.7% constant currency revenue growth and greater than 20% growth in underlying EBITDA. The company provided 2022 outlook for mid-single-digit organic revenue growth and high-single-digit pre-tax profit growth on a constant currency basis.

Before we start, I'm required to read a legal disclaimer. As a research analyst, I'm required to provide certain disclosures related to the nature of my own relationship and that of UBS with any company on which I express a view at today's meeting. These disclosures are available at www.ubs.com/diclosures. Alternatively, please reach out to me and I can provide them to you after. And also before we get into questions, feel free to use the app on the table in order to submit your own questions, and we can get to them at the end.

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QUESTION AND ANSWER SECTION

Sean King
Analyst, UBS Securities LLC

Q

So, Tracey, I guess we'll start here. Maybe we can just start broadly with an update on the key tenants of the revitalization plan and what have you achieved so far, what's still left to do and how could we see these start to materialize in the P&L.

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

A

Okay. Well, firstly, thanks very much for having us. We're quite excited to be here. So, we announced the revitalization plan back in 2019 and, really, it was about building out our company for sustainable long-term top and bottom line growth. And so, there were five key components to that. The first one is building on the strength of our core brands. The second one was aggressively growing our above premium portfolio. And third was expanding beyond the beer aisle. The fourth one was building capabilities and enhancing our capabilities. And then the fifth pillar was around looking after our people and our communities.

So, if I look at the first pillar around building on the strength of our core brands, if we look at 2021, both Miller Lite and Coors Light in the US and globally actually grew revenue. So, Miller Lite was at 7.6%, Coors Light was at 4.4%, really built on the strength of our consistent marketing message. Coors Lite embarked on the Made to Chill campaign a couple of years ago. We stuck to that message and it's working really well for us.

So, the strength of our core brands looking really good and we continue to put marketing dollars behind those brands. The second pillar is around aggressively growing our premium. And the hard seltzers is the big driver of our growth in above premium. Our above premium portfolio in 2021 is the sort of largest of the above premium of our portfolio that we've seen forever.

So, we get into a much more balanced portfolio. We're re-skewing more to the above premium than we had in the past. And the big driver of that growth is – came from our hard seltzers. So, Vizzy hard seltzer and Topo Chico seltzer are in top two – two of the top five brands in the hard seltzer category. Topo Chico is number four and we believe can be number three. So that was the big driver of the above premium. But, in addition to that, we've got the emerging growth team. It's a business unit that we separated to really look at beyond beer and to grow in that above premium space.

And they're growing off the back of brands like ZOA that's new to us, new to us as an energy drink; the fastest growing energy drink in the US at the moment. Looking at other beyond beer categories like ready-to-drink coffee with La Colombe, but also the core is made up of some of the sort of big drivers of our growth as well. So, our Latin American business had really nice growth last year, and we're planning for continued growth in Latam. Our distributor business is part of that core as well. And then our regional craft beers, so beers like Terrapin, Atwater, Hop Valley, they fall into that category. So, that's really where we're looking at expanding beyond the beer segment.

And then the fourth pillar is around building capabilities, and we've invested a lot behind our business in terms of insights, analytics, revenue management, just the ability to make decisions a lot quicker with [indiscernible] (00:05:09) that we have. And then, finally, one of our core values is around putting people first. And so, we're investing a lot beyond our people, making sure that we're supporting our people, particularly with the two years

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that we've just come through and making sure that we're supporting our communities as well. So, really happy with the progress that we've made in a pandemic as well as the inflationary environment that we're seeing. Revitalization is really paying off for us.

Sean King
Analyst, UBS Securities LLC

Q

Great. I guess, sort of within that, how far along – what do you still have for the cost savings side? What do you still have to realize within the cost savings program? And how do you see that playing out over the year, year and a half [ph] or years ahead (00:05:48)?

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

A

Yeah. So, cost savings is a way of life at Molson Coors. I think we're really good at delivering cost savings. We announced at the start of the revitalization, we announced a $600 million cost saving program. $450 million is really focused on the COGS line, so to mitigate the inflation. And then about $150 million is directly related to revitalization, where it's mainly on the G&A line.

So, we've delivered – in the last two years, we've delivered $490 million of that cost savings. So, we've got a bit to go in this third year. But we don't stop there. We continue to look at efficiencies, just better ways of working. And we really have learned a lot through this pandemic. So, a ways to go but we're really excited about the foundation that we laid so far through the revitalization plan.

Sean King
Analyst, UBS Securities LLC

Q

Yeah. And just to be – just to sort of clarify, the remaining portion, is that more towards the COGS side or towards the G&A side?

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

A

It's more COGS.

Sean King
Analyst, UBS Securities LLC

Q

Okay.

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

A

We delivered some of the G&A early on as we restructured the business.

Sean King
Analyst, UBS Securities LLC

Q

Okay. Got it. And circling back to the hard seltzers, and you guys have been successful amidst sort of the shakeout that we've seen in the category. When you think about a lot of the brands that have been discontinued and the success that you've had, is there – do you see the potential that you could grow ahead of the category in 2022? Or are there certain innovations that you have coming which can help increase your shelf space going forward?

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

A

Yeah. So, again, we are really excited about our hard seltzer portfolio. So, we've got Vizzy which is organic. Vizzy has grown share every quarter since its launch. There is more innovation coming from Vizzy. So we've got Vizzy Mimosa. And then on the Topo Chico side, we really weren't in many markets last year when we launched it. Beginning of this year, we've now taken it national. So that's rolling out right now; very excited about that.

Easy sell in, everyone wants Topo Chico. They know the brand. So that really helps from a selling point of view. And then we've got innovation on Topo Chico as well. So we've got Topo Chico Ranch Water. We've got Topo Chico Margarita. So we'll continue to innovate in this space. It's important. We got [ph] 7% share (00:08:12), we believe, in the latest read. And we know that seltzer is a big part of the beer space. We want to play in it. And so, we'll continue to look at taking share because we believe we've got a big runway.

Sean King
Analyst, UBS Securities LLC

Q

So the stated goal though was over the course of – what was to achieve a 10% share of the category.

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

A

And we don't want to stop there.

Sean King
Analyst, UBS Securities LLC

Q

Yeah.

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

A

You know.

Sean King
Analyst, UBS Securities LLC

Q

Okay. Well, great. And don't forget you're – in the context of Topo Chico, would love to get your latest thoughts on the expanding relationship with Coca-Cola. Like did the success that you've had with Topo Chico play a role in your decision to partner up on Simply Spiked? And then, sort of the secondary question on that is what do the shared economics look like either for the Topo Chico or what they potentially could look like for Simply Spiked?

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

A

Look, we were really excited when Coca-Cola chose us to partner with them. I think they could have gone with the number of companies, but I think the strength of our distribution system as well as the world-class chain team that we've got, I think, certainly helped that decision.

And the work and the innovation that we've done around Topo Chico, I think, has allowed us to now take another brand of Coca-Cola, Simply which is a billion-dollar brand. It's their second largest brand. It's a brand that everyone knows. So when you when you've got a well-known brand out there, it's just so much easier. And so, yeah, we're launching Simply Spiked Lemonade and we're really excited about that as well.

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So in terms of, again, where can this go, we haven't given specific guidance. We've obviously got internal targets. But we're really excited because this plays into different space, so simply plays into the full flavored alcohol beverage space. And it's a space that we believe is growing and we want to make sure that we're part of that.

Sean King
Analyst, UBS Securities LLC
Q

Okay. If these [indiscernible] (00:10:19) has proven to be successful, but if Simply proves to be successful, do you see an opportunity to continue down the path with these partnerships?

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

Yeah. And I think we've got a number of partnerships that we are involved in. And in some cases, some categories we may just want to grow ourselves organically and innovate within sort of our own portfolio, and then these partnerships like Coca-Cola, when you've got a brand like Topo Chico, when you've got a brand like Simply, it's much easy to use those brands and innovate with a brand name like that. So, we'll partner that.

We've got ZOA as well. It's a little bit of a different partnership because we do have a small equity stake, but we have the distribution rights. And so, that's a little bit of a different way to go to markets. And we'll learn from these and continue to look for those white spaces where we think that the next bit of growth is going to come from.

And if it means we use a partner to do that, we will if it makes sense or if it means we do it organically, we may do that as well. But I think we've learned a lot with the wide range of sort of partnerships and right to markets over the last couple of years.

Sean King
Analyst, UBS Securities LLC
Q

I'm a little disappointed because you promised that The Rock was going to be coming to talk about ZOA.

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

[indiscernible (00:11:41).

Sean King
Analyst, UBS Securities LLC
Q

Yeah. I wanted to sort of turn to recent trends, like starting with the US. What are you seeing in terms of demand in the on and the off-premise? And I know that things looked a lot different in January and sort of how we're kind of emerging from that with Omicron. And secondly, kind of thinking longer term about the on-premise, do you see it going back to where it was pre-pandemic?

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

Yeah. So, January did start slowly. In fact, December ended slower and January started slower. On our Q4 call, Gavin really spoke to the Omicron being the big driver of that. We saw that resurgence in Omicron sort of mid-November. It did impact people just wanting to go out, particularly in our UK markets where although the on-

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premise was open, people were just reluctant to have the holiday parties. And Christmas is a big time in the UK. So, we definitely saw that slowdown impacting our fourth quarter and then into January.

But, as February sort of started, we saw more people going back to on-premise, more on-premise opening. We've seen quite a rapid increase in that across all our markets; mostly – more so in the UK, in the US as well, and then to a lesser extent in Canada. But across all our markets, we are seeing the uptick in on-premise, which is obviously really important for us to get back to the levels that we saw in 2019. So, as we sit today, we're not quite at the pre-Omicron levels, but improving every day. And some markets are a little bit different to others but definitely seeing a ramp-up.

Sean King
Analyst, UBS Securities LLC

Q

One question about the on-premise. I know this was a thesis that was going around back in the beginning of the pandemic and coming out of the pandemic was that some of the well-known established brands would gain market share. Is that something that you believe is playing out or do you think you're going to go back to the same level of fragmentation of the on-premise?

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

A

Yeah. I do think there's a bit of the sort of pandemic which people were going back to those well-trusted brands, including retail. They didn't want to get stuck with 50 different small kegs. We have brands in the on-premise that have high velocity that move very quickly. So that was important to retail.

I also think though that when we look at brands like Miller Lite and Coors Light, the health of those brands are improving because of the messaging. I spoke a little bit earlier about that consistent messaging around what are those brands stand for and making sure that you stick to that. But also we've continued to put investment dollars behind those brands. They're important to us. And we'll continue to put the marketing pressure because those brands are big. They've got a role to play and they're very healthy at the moment.

Sean King
Analyst, UBS Securities LLC

Q

Great. Yeah, I want to – question about this related to the revitalization plan but thinking about – thoughts on premium in the context of the current inflationary environment that consumers are facing. Like do you see a risk to trading down as consumers feel those pressures? And could there actually be a scenario where you might sort of regret having eliminated a lot of the economy brands in the portfolio?

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

A

Yeah. So, we certainly – during the pandemic, we actually saw the opposite. We saw people trading up. And even prior to that, when we've had, in the last couple of years, there's been higher gas prices or higher unemployment. We see more of that trade up than trade down. Now, having said that, we have always said that all segments matter in beer. And so, we'll always play in the economy. We'll play in the premium light segment and now moving more to playing in the above premium.

When we look at the SKU rationalization, we had always planned revitalization plan. We'd always plan to take out SKUs. We just – we had too many SKUs in that economy space and the 100 or so SKUs that we took out are

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mainly in the economy space. We had always planned that the pandemic actually accelerated that with supply challenges and capacity challenges, we actually made that decision a lot quicker.

Now, again, with the brands that we've got remaining, and we've been very focused as to what brands we keep, they are the big, healthier brands. It's a lot more – our focus is a lot more condensed. We still play in a big way in that space. We're not going to give that up. But we've got brands like Keystone that plays in this sort of economy light segment. We've got Miller High Life that's more the full bodied segment to – full body in that next segment. We've got Steel Reserve Alloy Series, which is the flavor side, and then we've got Icehouse, which is in the ice category.

So, we play across all categories, all segments that's really important. The other thing that the SKU rationalization helps with is not just the portfolio, but also taking a lot of complexity out of our breweries. The more SKUs you've got the more complex it is and the more costs, so that certainly helped from an efficiency and a cost point of view as well.

Sean King
Analyst, UBS Securities LLC
Q

Great. I recognized it's very early days, but I guess how are trends holding up in Europe? And I know it's your exposure to like certain geopolitically impacted areas...

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

Yeah.

Sean King
Analyst, UBS Securities LLC
Q

...maybe small. But is there a risk to given how important the on-premise is in your European business? Is there a risk to that impacting consumer sentiment?

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

I'm actually going to let Greg talk for a little bit.

Sean King
Analyst, UBS Securities LLC
Q

All right.

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

So, Greg, why don't you answer that question?

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

Sure. Thanks. Thanks, Tracey. Thanks, Sean. So our – I guess, let's first start with Russia-Ukraine. We have a very minimal, call it, immaterial portion of our business that sits there, so not – we're not seeing that from a

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commercial standpoint as an impact. I guess, also, if you look at input costs, we don't get a lot from Russia-Ukraine, right? So, from that side of the business, not an impact.

And then frankly, obviously, the thing that that's doing is raising some costs, right? So, we're seeing inflation, whether it's in energy or other costs. We've not seen an impact at least short term, right? It's something the team's looking at really closely. But we've always – we've always said beer is – we like to call beer an affordable luxury. And we've not seen consumer step away. Again, something the team is monitoring very closely though.

Sean King
Analyst, UBS Securities LLC

Q

Great. Yeah, wanted to move to the 2022 guidance. It is a question that I've gotten from a lot of investors as it relates to that guidance. Some would argue that in 2021 guide fell a little bit short of the EBITDA guidance. So, why should investors feel confidence in the mid-single-digit organic sales and high-single-digit pre-tax profit for 2022?

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

A

Yeah. So, in 2021, we did actually hit our top line guidance of mid-single-digits. However, the Omicron created more of an issue in the UK than – we weren't expecting the resurgence of that variant. And we did – we were expecting higher sales still within that range. But, with the UK basically going through what they did over November and December, our sales fell short of where we were – we thought it would come up, but still within the mid-single-digit guidance range.

If it hadn't been for that, we believe that we would have met the EBITDA guidance, which we did slightly miss.

Sean King
Analyst, UBS Securities LLC

Q

Got it. When I think about the guidance, like what are outside of your control even what are some of the biggest risks to be able to achieve that guidance?

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

A

I think the big thing again is if there's some kind of resurgence of a variant from coronavirus. We know that that impacted us significantly with the on-premise shutdown. So that would be something. And we're obviously watching commodity prices. We've spoken about our hedging program and that kind of thing. But if commodities continue to sort of skyrocket and spot prices go up, that could impact the exposure that we do have to the spot market.

Sean King
Analyst, UBS Securities LLC

Q

Got it. When I think about this year's guidance sort of, it represents a return to both top and bottom line growth or bottom line or pre-tax profit growth. How much of that is sort of a reopening dependent versus cycling of some of the discontinued brands or just improving underlying fundamentals.

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

A

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I'm going to let Greg answer this one.

Sean King
Analyst, UBS Securities LLC

Q

Okay.

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

A

We're going to do like [indiscernible] (00:21:00).

Sean King
Analyst, UBS Securities LLC

Q

Yeah.

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

A

Thanks, Tracey. So, Sean, there's a combination of both, right? So, we do get some tailwind from reopening, right? We do certainly have some benefit from just greater premiumization that we've done in the past as well. We have a couple of headwinds like the continued one more quarter of our economy SKU elimination that we did, prioritization first and elimination in the third quarter.

And then – but I guess largely there's certainly benefits of continued progress against our core, right? So, strong performance on Miller Lite and Coors Light. If you look at recent share trends, we've got Coors Light growing share of industry in a recent read, Miller Lite just a tick behind, and then obviously continue to premiumize our portfolio. So, a little bit of both.

Sean King
Analyst, UBS Securities LLC

Q

Great. Yeah. I don't want to frame this one as asking you to guide for 2023 three, but is it possible when I think about what's underlying, what's transitory, that you could potentially be reshaping the business for growth in 2023? That's I guess – is that part of the plan?

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

A

In terms of our portfolio?

Sean King
Analyst, UBS Securities LLC

Q

Yeah. In terms of like getting back to top line sales growth really.

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

A

Yeah, the whole revitalization plan is about transforming a portfolio. And part of that growth in the top line is coming from mix. So, as we move our portfolio more to the above premium, so mix plays a big part in that revenue growth. And then, obviously, some of the pricing that we've spoken about helps that as well.

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Sean King
Analyst, UBS Securities LLC

Q

Got it. I want to move to sort of the beyond beer. I guess I'd like to get a little better understanding of sort of the genesis behind the move beyond beer. And was it a desire to support growth when the mainstream beer was no longer really a growth engine, an understanding of the supply chain capabilities that you have or something different like strengthening the relationship with distributors and retailers or maybe a combination of all these?

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

A

Yeah, I think it is a little bit of all of those. The emerging growth unit was set up as a growth engine for the company and looking at those white spaces where we haven't played before, but we believe we have a right to win in the space, and we can use our very strong distribution network. So, moving beyond beer helps us with the above premium story because the brands that we have and the brands that we're looking at and the categories that we're looking at all play in that sort of above premium space.

So that's a big part of the growth for Molson Coors. And then, obviously, using brands like ZOA and La Colombe, we don't – it's not organically us, but we can use our distribution network and sell it into chain, is a very important part of that growth that we wouldn't have had if we didn't partner in that space as well, so.

Sean King
Analyst, UBS Securities LLC

Q

Great. Yeah. I would argue that you guys are doing a lot, expanding into different brands, distribution agreements. Given all of these brands distribution and new initiatives, do you have sort of a structured approach as to when you would pull the plug on something if it's not reaching escape velocity because it does seem like you guys are doing a lot at this point?

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

A

Yeah. So, as I said earlier, one of our – the arms of our revitalization plan is enhancing and improving our capabilities. And so being able to have the insights and the data that tells us what's working and what's not working early on is really helpful. So, Coors Seltzer in the US, I think we had the branded market for six months and we decided to pull it. But then focused on Vizzy and Topo Chico, which we saw was growing. So, the insights capability is allowing us to pull brands a lot quicker and then putting fuel behind brands that are growing.

Now, having said that about Coors Seltzer, if you look at the Canada market, Coors Seltzer is doing really well there; Coors Seltzer and Vizzy together have got [ph] 9% share (00:25:26) of the Canadian market. So, we were able to take the insight and say hold on, it is actually working in Canada. So we will keep it there, but we'll pull it in the US. So, I think that capability has been huge for us in being able to make the decisions a lot quicker.

Sean King
Analyst, UBS Securities LLC

Q

Great. All right. We'll move to sort of current supply chain challenges. I believe there wasn't a lot in the fourth quarter prepared remarks or even analyst questions about related to packaging constraints, but that we've been hearing from other companies. I know that you said that like inventories were in a far healthier position. But are you seeing any challenges on, actually, I know the prices are going up, any challenges on actually sourcing of various materials? I know we've heard about from other companies sort of about brown glass, we've heard about

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regular size cans, we've heard about slim cans. It's always this moving target of what's in short supply. So, anything you can share on that would be great.

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

Greg.

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

Sure. So, Sean, certainly, there's some tightness in the industry and we've heard a lot about that, right? But if you look at where we're at from an aluminum can standpoint where in a – where we feel like we're in a really good position. There's a couple of SKUs that may be a little bit tight, but overall very good position; same for glass, again, primarily a good position. And I think you mentioned the inventory build, right? We did build 700,000 barrels of distributor inventory coming in.

So, we start the year off at a significantly better place than we were a year ago, pre all the challenges that we saw. And I think the last point, Gavin made it on our earnings call. If you look at our out of stocks position right now, we're back to pre-pandemic or better than we were in pre-pandemic levels. So, overall, from a supply, from an out of stock standpoint, we feel really good.

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

The other thing that we did last year as well, just to add to that is last year was a difficult year because we had to – it was painful. We had to get cans from all over the world. But what that has helped us do is actually build relationships with new suppliers. So, we've diversified our supplies as well. So, we're able to get cans from a number of can suppliers. This is more of a limited number that we had previously. So, diversifying supplies is certainly helping as well.

Sean King
Analyst, UBS Securities LLC
Q

Great. And just related to that, are distributors – maybe this is a question about where inventories stand versus where you think that they should stand with distributors. And is there any sort of – have you seen any – because of the pandemic – any changes in how much inventory distributors want to change – would want to carry, assuming in some cases it's more, in some cases, it might be less?

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

Greg, do you want to take that?

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

Yeah. I think, at a very high level, no, right? Certainly, distributors are – they are concerned with some of the overstock positions they saw in some of their brands. So, they're certainly conscious of it. But, at the same time, they have gone through these challenges just like we have where we've – nobody wants to be short either. So, I think it's something we're really collectively managing really well together. But I think both parties are really conscious of it.

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Sean King
Analyst, UBS Securities LLC

Q

Got it. Does the huge – the huge spike that we've seen in aluminum in recent weeks, should I think of that as presenting a headwind for FY 2022 or should we be thinking of that as more of a FY 2023 headwind when I think about your hedging policy?

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

A

Yeah. I don't want to get into the exact percentage of coverage that we have got. But what I can tell you is we hedge all commodities. And, for 2022, we feel really comfortable with the coverage that we have got. Now, the way we hedge is we typically hedge over a three-year period with more hedge cover in the first year, a little bit less in the second year and less in the third year. So, they've all – if commodity prices continue to rise, we do still have exposure to the spot market in year two and year three. So, that will impact us. But, for that reason, we've got things like our cost savings program, the portfolio mix, which we're driving, that's going to help offset that inflation.

Sean King
Analyst, UBS Securities LLC

Q

Great. Another spiking input would be on fuel costs. And I guess when I think about fuel cost spiking in the US, in the – overlaid in the three-tier system, does that impact your margins this year versus how does it impact margins next year? I know, Greg, you've spoken about this before, so I'll throw this one at you.

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

A

Sure. So, yeah, we set up our distributor freight and fuel program probably a decade ago. And we've been running that very consistently each year, Sean. The way that it works, we set a price at the beginning of the year. That price, in essence, it insulates distributors from significant spikes or moves. And then in the subsequent year, we true that up on a 50/50 sharing basis, right?

So, last year, obviously, with the significant inflation we saw, we bear the risk of that in year. And then in the subsequent year, we true that up on a 50/50 basis, right? So, the pricing for distributor, freight and fuel program did go into effect, the increased pricing on January 1, and that's going to stay consistent through this year. And obviously then, next year, it will be what it will be.

Sean King
Analyst, UBS Securities LLC

Q

Okay. And that's just the way it actually translates into revenue for you, given...

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

A

Yes. Yeah.

Sean King
Analyst, UBS Securities LLC

Q

Okay. Got it.

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

A

That's exactly right.

Sean King
Analyst, UBS Securities LLC

Q

I want to move to sort of capital allocation and kind of tying your long-term strategy with capital allocation. I would argue that a lot of investors saw your stock as more of a dividend income stock until the dividend was cut in the face of those challenges. But now it's back, is the company – when you think of the company of the future, is it more of like an income stock, like a stable growth story or somewhat of a balance in between?

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

A

Yeah. I'd like to think it's both. Again, if you think about revitalization plan, it's about growing the top line and the bottom line. But also, as you've said, we've paid a dividend for a very long time at Molson Coors. And, for us, to suspend that dividend was a very difficult decision. But when we did suspend it, it was always our plan to bring it back as soon as possible in a way that was sustainable, but also in a way that we could increase the dividend as our business performance improves.

So, just a couple of weeks ago on our call, we did announce that the board had approved a 12% increase to our dividend. But, obviously, the only way that you can keep growing your dividend is you need to grow the company as well. And so, it's a bit of a both end. And the revitalization came and the guidance that we've given plays directly into that, so.

Sean King
Analyst, UBS Securities LLC

Q

Got it. Want to take some additional questions here; and anyone, feel free to add questions through the app. But one here is what are you seeing in terms of price elasticity just given the price increases which are – historic price increases is a much smaller range than I believe that you've been guiding to?

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

A

And I think it's early days. So, we put the – we normally take price increases in the spring. We took it earlier this year. We took it – it's planned to be around 3% to 5% on average depending on market. Again, it's early to actually understand the elasticity, but we've got revenue managers that sit in every one of our markets.

And we've got this really great revenue management team that look at our brand's elasticity, the SKU by market, where we've got the number one brand in the market or it's number two. They take all of this into account market by market, understand the elasticity, as I say. But it's still early days for us to see. But, certainly, 3% to 5% is much higher than traditionally what the beer industry has taken. So, we're watching it really closely.

Sean King
Analyst, UBS Securities LLC

Q

Got it. Another one. Want to hear kind of on some of the other brands, just like what kind of reasons for constructive outlook or how do you see sort of the trajectory for Peroni and Blue Moon into next year.

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

A

Yeah. So...

Sean King
Analyst, UBS Securities LLC

Q

Or next year [indiscernible] (00:34:05).

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

A

We are really excited about both those brands because as the on-premise comes back on, those are strong on-premise brands that play in that really high above premium space. In fact, I think it was two days ago we launched the new Peroni campaign. So we believe in that brand. We're excited about it. It grew pre-pandemic. It was growing really nicely on-premise; and the same thing with Blue Moon.

With Blue moon, we also have innovated a lot. So we've got Blue Moon LightSky Tropical Wheat, that's an innovation this year that we're launching. Blue Moon LightSky that we launched was two years ago and was, I think, the best beer launch of the year. So, we know we've got strong brands in both of those. And as the on-premise comes back, we expect to see those brands continue to grow.

Sean King
Analyst, UBS Securities LLC

Q

Great. I guess reasons for that constructive outlook on the core brands, Miller Lite and Coors Light, is it the consistency and success of the marketing campaigns that you've had? What are some of the key drivers for – because those are really, in a lot of investors' view, what's going to be moving the needle for the company going forward?

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

A

Yeah. Definitely the consistency in the message, we've seen that play out over the last while. But, Greg, you want to add anything to that?

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

A

Yeah. I think, Tracey, that is the biggest piece, right? And if you look at the consistency in the messaging and just the overall brand health, it continues to improve. We've not been in a position very many times where both Miller Lite and Coors Light are brewing at the same time or healthy at the same time.

And if you look at our performance right now, you can see that, right? You can see the strength of both of those brands. They've taken share now, share of segment for like around seven years, right? And we feel very good. And the on-premise now being open that helps us as well. Both brands play in the on-premise, but also our ability to market and execute as the reopen that helps.

Sean King
Analyst, UBS Securities LLC

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I think that's actually all the questions that we have. So, we'll be able to end a little bit early here, but I want to thank Tracey and Greg for joining us today and to anyone listening in.

Please enjoy the rest of the conference.

Greg Tierney

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

Very good.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

All right. Thank you.

Greg Tierney

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

Thanks, Sean.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thanks very much.

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