

21-Feb-2024

Molson Coors Beverage Co. (TAP)

Consumer Analyst Group of New York Conference

CORPORATE PARTICIPANTS

Gavin D. K. Hattersley

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

Brian Feiro

President of US Sales, Molson Coors Beverage Company

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

OTHER PARTICIPANTS

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Kaumil Gajrawala

Analyst, Jefferies LLC

Bryan D. Spillane

Analyst, Bank of America Securities

Andrea Teixeira

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

It's my privilege to welcome Molson Coors to CAGNY this year. We're really excited to have them since this is their inaugural CAGNY presentation. And so it's my honor to introduce Chief Executive Officer, Gavin Hattersley; and Chief Financial Officer, Tracey Joubert. So please join me in thanking them for their sponsorship of the beverage reception immediately following their presentation.

So it's truly an exciting time for Molson Coors as the company has made tremendous progress on its transformation journey, having changed over the course of a few years how it invests, how it markets, and how it operates to return the company back to growth. Having completed its revitalization plan, the company has more recently embarked on its next chapter to accelerate the growth it has created with the aim to deliver sustainable top and bottom-line growth longer term.

So with that, I'm going to turn it over to Gavin to hear more about their efforts. Thanks.

Gavin D. K. Hattersley

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

Thanks, Bonnie. And thank you, everybody, for joining us this afternoon. Now, I guess I realize the irony of me standing between you and a beer and we'll watch the video first.

[Video Presentation] (00:01:31-00:02:27)

Thanks. My timing was perfect there. So, as I was just about to say, I'm standing between you and the Molson Coors' Happy Hour right after this and we've got some great brands there. So hopefully we'll make this as insightful and engaging as possible.

And speaking of insightful and engaging, here's our forward-looking statement. You can go to our website and look at our presentation slides for all the usual disclaimers and citations that come with it.

So let's get right into it, so that we can get to Happy Hour, where we've got Madrí and we've got Happy Thursday and we've got Blue Run whiskey, and we've got lots of other exciting brands for you.

So I've served as President and CEO of Molson Coors now since 2019. And if you ask me the reasons why our business operates in such a compelling part of CPG, I would say, there were two things.

First, our brands are highly visible. They exist at the center of celebrations, because consumers believe that their choice of beer says a lot about who they are. So we've got a serious responsibility to our consumers, and that's one we've been honored to have for hundreds and, frankly, hundreds of years. It informs how we build our brands, how we work with the 400-plus distributors that we have in the United States. And it informs how we've transformed Molson Coors to drive growth.

The second reason that this industry is so compelling, is because, quite frankly, there's a gap between the perception and the reality when it comes to the future of beer. You've probably seen headlines like this at some point in time in the past year. But contrary to what some may think, beer volume trends in the US improved during 2023, particularly in the fourth quarter of last year. Beer is also growing total share of alcohol, while other parts of the category declined, most notably wine and bottled spirits. And this is happening for several reasons. But I'd point to a few drivers.

Firstly, consumers look to buy products that meet their needs and their occasions. With beer, consumers are most often looking for something that tastes great, it's light, it's refreshing, and it's highly sessionable.

Look light beer is 50% of \$115 billion category. It's four times bigger than flavored alcohol beverages. It's seven times bigger than hard seltzers and it's over 20 times bigger than ready-to-drink spirits. And relative to total alcohol, beer has long been considered a beverage of moderation, because it's often lower in alcohol than a cocktail or a glass of wine. Beer, especially light beer, provides an experience that consumers are truly looking for. It's available in a variety of packaging types at a range of price points, so consumers can find a great tasting and affordable option no matter what the economic environment is or what their personal economic circumstances are. So we believe that Molson – that beer has a very bright future ahead of it, and so does Molson Coors because of that.

Now our brands are available and found in approximately 100 countries around the world. We have brewing operations in 10 of them, including, obviously, our largest markets of the United States and Canada and the United Kingdom. We're not only competitive in these developed markets, we're actually leading growth in them. In fact, in 2023, Molson Coors grew more share of the United States beer market than any other brewer, any other brewer. And we did the same in Canada.

In the UK, we have the fastest growing beer brand called Madrí Excepcional. In other regions, we operate an asset-light model and an export model that allows us to use the flexibility to scale in those emerging markets where the opportunity, the demand or the need exists.

And this, frankly, is a major strategic advantage for our business, especially as other brewers pursue geographic expansion and consolidation in an era where the market is simply too developed to do that effectively.

So for a business to thrive in our industry, now and also into the future, strong fundamentals are essential. And in recent years, we've reshaped our portfolio, we've restructured our business, and we have grown our business because of our strategy.

For example, five years ago, we made the strategic decision to position Molson Coors as a total beverage company. We want to have the right products for all consumers during those celebrations, which I mentioned earlier.

If you're looking for a refreshing light beer, that tastes great, our core brands. If you're looking for an elevated experience with a European lager or a beloved national craft brand, look, no further than our high-end portfolio. Something that isn't traditional beer, we've got flavored alcoholic beverages, we've got an alcohol-free beer, we've got an energy drink and we've got an award-winning whiskey.

The point is, our portfolio is strategically designed to provide consumers with a range of great options that will fit every single occasion. And ladies and gentlemen, that strategy is [Technical Difficulty] (00:08:49).

Last week, we reported our second consecutive year of top and bottom line growth and a third consecutive year of revenue growth. And Tracey will take you through our long-term financial objectives. But here's my favorite fact about 2023.

Our 2023 underlying pre-tax income was higher than we thought it would be, and frankly, higher than anyone else I'm aware of, thought it would be in 2028. So Molson Coors delivered six years of profit growth in just one year. Let me say that again, Molson Coors delivered six years of profit growth in one year. And that sort of growth doesn't just happen. It's the result of us having the right strategy, the right people, the right brands, the right partners and the right understanding of consumers. And we're also off to a very fast start in 2024.

In the United States, Molson Coors is leading all brewers, all of them, in year-to-date dollar share growth. And in the latest four weeks, that share growth is actually accelerating compared to the trends that we saw in the fourth quarter. We're seeing similar results in Canada. And in the UK, we're growing value sales year-to-date, and that's led by Madrí Excepcional.

Just for some context, Madrí is up over 45%, and it's growing five times faster than the overall beer category. A full portfolio is contributing meaningfully to these results and our roadmap for the future is very clear. Our focus – our focus is keep our core brands strong and healthy to drive year-over-year revenue growth. Premiumize our portfolio in the right spaces with a disciplined approach in traditional beer and also in beyond beer.

Our capabilities don't only support our portfolio growth, they actually drive it. And here's an example of how we've done this with our approach to product innovation. Over the last four years, our team has shifted their focus to creating fewer and stronger new brands. We've cut our innovation pipeline in half, yet the revenue from our US innovation has increased by nearly 50%. So we launched a fraction of the products we normally do from an innovation point of view, and we have driven 50% more because we've done it in the right spaces. And an example of that is Simply Spiked in the High Flavor segment and Blue Moon non-alc beer in the beer space.

Let me tell you this more strategic and focused approach has been very successful when it comes to product innovation, and we're applying it to other key areas of our business as well.

Here's a very recent example. At the end of 2023, we created an Americas commercial accelerator that brings together category management, it brings together precision data, it brings together revenue management, consumer insights, digital, and media, all under one roof. And this team works across sales and marketing, and it works across Canada and the United States and Latin America.

But most importantly, they prioritize building our brands and executing them in the marketplace with one set of objectives. And we strive for this level of connection in everything that we do, in how we build our teams, in how we build our brands, how we build our relationships, and how we connect with our consumers.

So let's get into how we're driving growth with this mindset, starting with our core brands. These are some of the largest and most iconic beers in the world Coors, Miller, Coors Banquet, Molson, Carling and Ožujsko. And they're growing revenue, they're growing share and volume or a combination of all three. We have grown these brands by building share of mind and physical availability. We have given our core brands distinct roles within the marketplace and distinct roles within our portfolio.

We've made our media dollars work much more effectively across digital, across TV and across retail media. We've made sure that our brands stand out with very clear visual identities, with breakthrough packaging and design across every channel and every location.

In doing so, our core brands are relevant and they're strong, and this is evident when you look at their share trend improvement since 2019. Their progress is equally apparent when you consider the absolute share growth of our core brands compared to just three years ago.

In the US, our brands grew absolute share of the beer industry by over 10% for volume and for dollars. And year-to-date in 2024, those trends are even stronger with our core brands up over 15% versus 2021. And to keep these brands strong and healthy and growing, we are investing strongly behind them to connect with our local and loyal consumers and new consumers as well, connecting with our loyal consumers and new consumers.

And one great example of this is how we're doing this with Coors Light in the Americas. We're not even two months into the year and Coors Light has already launched a highly successful Super Bowl campaign in Canada, as well as in the United States. And the reaction to our Super Bowl campaign was incredibly positive. We saw a 300% increase in social conversation for Coors Light during the game, but it would be a mistake for anyone to focus solely on volume of conversation.

Our industry saw in 2023, that more noise isn't always good for your brand. Success during the Super Bowl requires positive conversation. And in that regard, Coors Light was the clear winner this year, the clear winner. On social media, Coors Light had by far the most positive sentiment of any beer brand during the game. We achieved the goal, which is actually more important, of actually selling more beer. Molson Coors gained more share of displays than any other beer brewer in the food channel, with Coors Light display inventory up more than 16%.

So far in 2024, Coors Light has also unveiled a new creative platform and announced a major partnership with Lainey Wilson, who just won a Grammy Award for Country Music Album of the Year and also won a People's Choice Award. All of this has contributed to Coors Light growing more volume share than any other beer brand in the United States year-to-date. And it continues a strong pattern of momentum that started long before 2023, but it has accelerated over the past 11 months.

In 2023, Coors Light grew more volume share in the United States than any other beer. On-premise, Coors Light grew more revenue as a single brand than the next largest competitor did as a total business, that's not our data, that's CGA Nielsen's data.

In Canada, Coors Light is the number one beer brand in Ontario, and it's on track to be the number one beer brand across the whole of Canada. Momentum is not letting up. Year-to-date, Coors Light is up over a full share of point in volume terms.

And as we look to spring and summer, we are refreshing Coors Light's marketing with a new campaign, which is called Choose Chill. We're launching major sponsorships across consumers' passion points like music and like live sports. We're going to be localizing our marketing assets in 65 different regions across the whole of the United States as well as Canada.

We're going to be investing strongly behind our core brands, which is a key component of our strategy. But it's not only about spending more, it's about spending effectively and optimizing where we spend our dollars.

For example, more than 50% of our total media spend is in digital and 60% is in addressable channels. So whether consumers are playing fantasy football, whether they're streaming their favorite shows, they're ordering beer online through e-commerce platform, our brands are right there front and center. But making our dollars work harder isn't just about channel optimization.

Over the last three years, we've also developed marketing analytics capabilities that give us a much more precise view of what's driving the marketing. This data helps us to plan proactively, and it helps us to optimize about 80% of our media dollars in very near real-time.

Using purchase-based data, we can target specific consumers with specific marketing assets on specific channels. We can optimize our plans as we go to ensure that we are seeing the strongest results for the marketing. For example, we know exactly which Coors Light commercial yields the highest return on, say, a mid-week night of a basketball tournament. And we're going to continue to invest in this capability to make the most informed decisions that we possibly can across all of our marketing levers.

Now let's turn to sales execution, and we have Brian Feiro, our President of Sales, with us today so that you can ask him any questions in the Q&A afterwards or at the Happy Hour over a beer. There's been a lot of discussion recently about spring shelf resets in the United States. And I think we are uniquely positioned to talk about that topic.

Why do I say that? I say that because Molson Coors is the beer category captain for 50% of the retail volume in the country, 50%. And while it's safe to say that no single brewer has got a complete view of the space, no one has a better view than we do. That's because retailers trust our insights, they trust our understanding of the category, they trust our strategic partnerships and our belief in category growth.

Our approach is not parochial. And that's exactly why our team draws and influences more retail sets than our market share would suggest that they should. And we really are proud of this leadership. We've invested strongly behind the technology that gives us that competitive edge. We've invested strongly behind the people so that we can build. And I think we've built what we believe is by far and away the best space and assortment team in the whole industry. This goes back to the importance of physical availability.

I've said this before and I'll say it again, we expect to be the biggest beneficiary of this spring's shelf resets in the United States. In our largest grocery retailers, we expect to grow space for our core brands, Coors Light, Miller Lite and Coors Banquet, by more than 10% on average.

In convenience stores, where frankly space is even more restrictive, we're seeing our largest retailers mirroring the space increases that we are seeing in grocery. And this additional space is going to ensure that we can build on our current velocities, that we're going to be able to better manage in-store stock conditions and we're going to bring a better shopping experience at retail for the consumers.

What does this mean for the future of our brands? For our core brands, we have a massive opportunity to continue winning light beer occasions. From a premiumization point of view, that's slightly different. Beverage companies must be very disciplined about launching new offerings, while also growing their existing high-end brands. And the reason why this is so important is because in our industry, innovation is most often developed to drive premiumization, and innovation continues to drive over 50% of the category's growth.

But it's also true that nearly 85% of those innovations do not make it into their second year. And retailers know this better than anyone. So factors like runway and longevity are now more important than ever when it comes to beer. Our portfolio has got some really heavy hitters in this space. We've got the fastest growing beer in the United Kingdom. We've got the number one craft beer in the United States. And we have got the top performing flavor innovation in the US grocery channel.

Miller Lite in Canada and Miller High Life in Mexico, sell at above-premium price points in those markets and they are both growing double-digits. We've also made some strategic investments and we've made some acquisitions in growing spaces that are new to our portfolio like ZOA Energy and also Blue Run in the top tier whiskey space. We're committed to these spaces for the long-term. We plan to have one-third of our net brand revenue in the above-premium space, with half of that growth coming from high end beer and the other half coming from beyond beer.

So let's start by what we're doing in beer and Madrí Excepcional is a great example and you'll be able to taste that tonight. Madrí has quickly become a standout star in our global portfolio. The brand launched in the United Kingdom in 2021, which was a famously good time to launch a new brand in the on-premise. And it arrived in British pubs with a bright red label that was very difficult to ignore and consumers caught on quickly to the Spanish branding and the great taste and Madrí has grown rapidly from there.

Today, Madrí is the fastest growing major beer brand in the United Kingdom by both volume and value. It continues to surpass the largest brands that have been around for decades, and we're committed to expanding this brand into more markets in 2024, and we're going to do it very deliberately. We're not going to go everywhere at once. We've selected a few markets, one of them in North America and also in Europe that we think provide a very clear growth opportunity for us.

Canada, for example, European imports have outpaced the growth of the total beer category for the past five years, and so we're very excited to have Madrí in the market and we plan to continue to explore new markets for Madrí when the time is absolutely right. It has only taken three years for Madrí to become a top 10 brand in our total global portfolio. And we believe it can become much larger over the long-term.

And it's just one example of how a disciplined approach towards premiumization is contributing to our success. It complements the rest of our portfolio perfectly, which is clear from how the entire portfolio is contributing

meaningfully towards our performance. Across every part of the market, we're providing consumers with a range of great options and they are responding extremely well to that.

Take Simply Spiked as an example. We've developed a truly differentiated brand that meets consumers' desires. We created Simply Spiked about two years ago through our relationship with Coca-Cola. We, based it on the insights that consumers wanted real fruit juice in their flavored alcohol beverages. No other major brewer was offering this, so we found the right brand, we made a great tasting product, and we filled this whitespace very successfully. Simply Spiked more than doubled its volume in 2023, and it's been the top performing innovation in the category for back-to-back years.

Our goal with this brand, though, is to solidify its on-shelf premise with a focused lineup of flavors that consumers and retailers can rely on. And that's why we're introducing Simply Spiked Limeade to round out our three core flavor packs, which is Lemonade, Peach and now Limeade. And there's a limeade slushie machine in the Happy Hour as well.

Our intention is to keep the Simply Spiked assortment simple and straightforward for our consumers and drinkers alike. And we think this approach has got a lot of runway, and we expect Simply Spiked Limeade to perform just as well as our previous two releases for this amazing brand.

So the moves we are making in the high end of our portfolio give us a clear path for growth, whether that is in beer or whether that is in beyond beer. The momentum of our core brands and the space gains that we expect at retail this year also give us a clear path for growth. And the ways we have enhanced our whole organization give us a clear path for growth as well.

Our proven approach and the results that we've delivered to date give us an immense amount of confidence that Molson Coors will deliver in the present, this year and in the future.

And now I'll pass it over to Tracey to talk a little bit about our financials. Tracey?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin. It's really great to be here and thank you all for joining us. So Gavin talked about the strength of our brands. He talked about our exciting commercial plans and the depth of our capabilities. And this is what supports our long-term growth algorithm and it really is what gives us the confidence that we can achieve it.

So as we first shared at our October Strategy Day last year, our long-term growth algorithm calls for low-single digit top line growth on a constant currency basis, mid-single digit bottom line growth or underlying income before income taxes growth on a constant currency basis and then underlying earnings per share growth of high-single digits.

So taking a look back at revitalization plan back into 2019. Molson Coors was focused on the bottom line and we still are. But under the revitalization plan and now the acceleration plan, we are focused on growing the top line as well. And as Gavin mentioned, it's exactly what we have done for the last three years. And for the last two years, we have grown both top and bottom line.

Now, certainly, 2024 does present some challenges, there's some tough comparisons, but we are confident that this won't be an exception and that we are confident in continued growth for our business.

Now without repeating too much of our Strategy Day or our outlook from our earnings call last week, I did want to touch on a couple of things. So in today's world, we know that volume is a primary focus. In 2024, we'll face a volume headwind related to the wind down of a low margin, but large contract brewing arrangement which terminates at the end of this year. It equates to about 3% or about 2 million hectoliters headwind to our Americas financial volume this year.

Now, of course, aside from this near-term impact, the termination of this contract is a positive overall. It adds capacity during the typically tight summer months and reduces significant complexity in our US breweries. But volumes aside, we expect favorable pricing supported by the strength and health of our brands. And when it comes to pricing, it certainly is a very different world than it was in 2022 and 2023. We expect pricing to return to the historical range of around 1% to 2% for North America and then to trend near inflation for our EMEA APAC business units.

We also expect the positive benefit from mix from our premiumization efforts. Now we have meaningfully changed the shape of our portfolio over the last several years, and there is more to come.

As we advance towards our goal for the above-premium portfolio to reach approximately one-third of our global net brand revenue in the medium term. It's huge successes like Madrí, that Gavin just showed you, the turnaround of Blue Moon, the innovations in the rapidly growing non-alc beer space that we expect will drive this.

And as Gavin mentioned, beyond beer will play a meaningful role in this. And it's expected to fuel approximately 50% of our above-premium net brand revenue growth. And this will be driven by flavors, including winners like Simply Spiked that Gavin also just spoke about, along with new innovations like Happy Thursday, which again can taste tonight, as well as our extensions into other high growth categories like energy drinks with ZOA and the high-end spirits like Barmen, Five Trail and Blue Run whiskey.

Now let's talk about margins. Our long-term growth algorithm calls for margin expansion. We've talked many times about the multiple levers that we have to drive margin expansion being pricing, mix, productivity and cost savings. And these are all levers that we intend to pull. But today, I want to talk a little bit more about margins, specifically to 2024, because commodity costs and the impact on margins are certainly top of mind in this environment.

To start, we do expect gross profit dollars to increase in 2024, but we also expect underlying COGS per hectoliter to increase. Now, many of you have heard about our extensive hedging program. This helps us to ensure that we have a clear line of sight for costs and we eliminate large swings both up or down in commodity prices. Our hedging program is opportunistic. It is not programmatic. It's longer term. Typically, we hedge over one to three years. Now, in 2024, it's important to remember that we will still have some hedges in place from 2022 and 2023, when commodity prices were higher.

We also have material conversion costs in certain of our contracts that are linked to inflation indices like PPI, for example. And often these are on a lagging basis. But we also expect premiumization so that comes with higher COGS per hectoliter, although it also comes with higher margins. And lastly, we had the benefit of a quite meaningful volume leverage in 2023, and we expect that we'll have a less of a volume benefit leverage in 2024.

In terms of marketing, we'll continue to fuel and put the right commercial pressure behind our brands globally. We'll support our strong momentum and we'll focus on retaining existing customers and attracting new consumers.

But as always, we will balance that reinvestments with growth, ensuring we get the highest return for our investments. Now, our strategy is aimed at making sure that our marketing dollars are working harder for us. And because of this, our long-term growth algorithm does not require us to make step changes in our marketing investments.

Now, let me talk about capital allocation. We are a highly cash generative business, and this coupled with our significant improved financial flexibility does position us well to deploy our capital in ways that we believe will give our shareholders the greatest returns. So we'll talk about capital allocation priorities.

First to invest behind our business to drive top line and bottom line growth and deliver efficiencies. Now, this could be through capital projects, investing behind our brands or bolt-on acquisitions.

Secondly, to reduce net debt. And as you can see, we have meaningfully de-levered our balance sheet over the last several years and our net debt to underlying EBITDA ratio of 2.2 times at the end of last year is well aligned with our longer term target of being under 2.5 times.

And thirdly, to return cash to shareholders. Through consistently growing the dividend and sustainably and opportunistically executing our new \$2 billion share repurchase program, which we announced in October.

So with that, I want to thank you again for being here. We're going to stay in this room and we're going to have our Q&A.

So, Gavin, Brian, you want to join me? So we'll open it up.

QUESTION AND ANSWER SECTION

Gavin D. K. Hattersley

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

I think there mic's coming along here.

A

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

There you go.

A

Gavin D. K. Hattersley

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

Bryan or [ph] Robert (00:37:29). We'll go [ph] Robert (00:37:30) and then we'll go Bryan.

A

Q

So one question for Gavin and one for Tracey. Gavin, can you just help us think through the volume implications of 10% more shelf space in the spring? I mean, what does that mean? You're obviously sending signals to the breweries in terms of how much they brew. So what does that mean? That 10% extra? And then, Tracey, assuming everything kind of stays flat to the best extent you can, do you think that COGS per hectoliter might go down in 2025, given that you've got some visibility on the hedging, all things equal? Thank you.

Gavin D. K. Hattersley

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

A

Thanks, [ph] Robert (00:38:18). Actually, Brian, why don't you take the shelf space? It's right on your wheelhouse.

Brian Feiro

President of US Sales, Molson Coors Beverage Company

A

Sure. Thanks, [ph] Robert (00:38:22). So shelf space we see as the most positive leading indicator on portfolio performance for us. So if you think back to what we've been talking about for the last couple of quarters, we had retailers in an unprecedented move make space adjustments last summer and last fall. Sets occur in a very regular cadence for retailers.

And when they saw the momentum that hit last year, over 50 retailers made space adjustments and we grew Miller Lite and Coors Light space by 6% and 7% respectively. So that to me was the first leading indicator, because we've tracked performance in those retailers where we've made those changes and we've seen acceleration, which Gavin talked about in terms of our share performance in Q4.

Now the other piece that's really important about space is that as we come into the spring, Gavin noted that we're expecting 10% on average growth from some of our largest customers. He talked largely about large format where we're seeing good growth for the core of our portfolio. We're also seeing a good take rate on our innovation. The thing that's most exciting to me is that we're seeing that growth in small format where we under-indexed.

And so, if you think about what happens when you have massive demand, if you're a shopper, you come into a store, you look for your product, if you're constricted on your shelf space, then we have a bunch of out of stocks. And so seeing our shelf space expand, particularly in small format and in large format, it gives us more days of inventory, which allows us to absorb the velocity growth that we've had to ensure we have the right experience for shoppers when they're in store and they can pick up our products. And so we see that as a core component of accelerating the momentum that we've had coming through the spring.

Gavin D. K. Hattersley

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

A

Thanks, Brian. Tracey, COGS?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah, I mean, in terms of COGS, our long-term algorithm of margin expansion assumes that commodity inflation will sort of continue to moderate. 2024, we expect significant moderation, certainly compared to 2023.

The other thing to note, just again, on our hedging strategy, in year one, we typically have more hedges and then less in the second year and even less in the third year. So, if commodity prices continue to fall, obviously, we would benefit from that because we wouldn't be that far hedged out in the future.

And then, cost savings is, it's just something that we always do at Molson Coors. It's just a way of life and we'll continue to drive some of the efficiencies, cost savings, whether that be through our breweries. We've spoken quite a bit on the investments that we've made in our breweries to drive cost savings and to drive efficiencies like variety packing, et cetera bringing contract brewing in-house. So, the assumptions that we've made is certainly that the cost world will kind of get back to normal over 2024 and 2025.

Gavin D. K. Hattersley

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

Thanks, Tracey. Bryan?

A

Bryan D. Spillane

Analyst, Bank of America Securities

Thanks. Bryan Spillane, Bank of America. So two questions for you, Gavin, and really kind of appropriate for this room. If you would just look at the algorithm that you guys have laid out, and you look at the multiple that the valuation of stock trades debt doesn't make any sense, right. I don't think.

Q

Gavin D. K. Hattersley

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

Do you want me to comment on that?

A

Bryan D. Spillane

Analyst, Bank of America Securities

No. I don't. But I think there's two reasons for it, right? I think one reason, near term is you had this tectonic shift in share in the US last year over the last 12 – 10 months, whatever it is. Can you hang on to it profitably? So if you could comment on, I don't know, what you've seen that gives you confidence that you will. Is Super Bowl a good example, right? Everybody was marketing and conversations were better, you gained share maybe that's the answer.

Q

But the second is more, I think, and this is the more secular issue is, the US is a big market for you important and the perception in this room is that it's in secular decline, right, like volumetrically. And I think underwriting a higher multiple in a category of a secular decline, I think, is where people get stuck. So if you could kind of – I know, you touched on it a little bit in your presentation, but just if you can touch on your view on whether it's a secular decline, what's changing that flattens it out, if you could just give perspective on that, I think it would be helpful.

Gavin D. K. Hattersley

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

Yeah, sure, Bryan. Look, I mean, just a couple of things, right? So firstly, I would say to you that the share gains we've got and the improvement of our business was happening well before the tectonic shift that you referred to on the 1st of April. In fact, I think people forget that our momentum was really growing strongly as we headed into the second quarter.

A

So, we delivered what the objective of our revitalization plan was in 2022, and we were on track to do it again in 2023. Now, I'm not going to tell you we would have done as well in 2023 if we hadn't had that tectonic shift, but there's no question that we would have delivered what we said we were going to do, which is growth in both the top line and the bottom line. The growth is just a whole lot more, as I said, six years in one.

If you look at the momentum that has been experienced, it hasn't changed a whole lot over the last 10 months, right? The consumers have come across and they have stuck with us. And the proprietary databases that we've got and the conversations that we're having with our consumers reaffirm that, right, that they've actually become very loyal to our brand. And you can see it in the trends that's publicly available. And we see it in some trends which are not necessarily publicly available.

And maybe I could also just address a point which I know is going to become topical in April, right. If a particular brand was declining pretty steadily at, say, 30% every week for a year, and then on the 1st of April, the first week of April, it starts declining 2%, that's not good. That's not an improvement. That's actually getting worse because it means it's down 32%.

And I know that some folks are going to spin that as an improvement, but it's actually not. You're all smart people, you know that, right? But down 30% and down 2% is not getting better, it's getting worse, okay. I'm sure he loves that.

So we believe that we're going to hold on to that momentum, the data is showing it, folk are not just going to wake up in the first week of April and say, well, I've exhibited this behavior for a whole year and now I'm just going to change. It's not going to happen.

Secondly, the industry. So, I think to look at the industry, you've got to step back to what was happening last year. And the industry got off to a tough start in the first quarter of last year, I mean it was that awful weather in one of the biggest beer selling markets. And then a little bit of ups and downs and finished the year quite strongly. And so the momentum we saw for the industry coming into this year was strong.

Now we haven't had the greatest start to the industry this year and that's largely, I mean, if we thought the weather was really bad last year in that big beer market, it was even worse this year, and you can see that in some of the trends for folks that over-indexed in that part of the country. And it was also the deep freeze.

Just remember, it's only one month, right? It's the lowest beer selling month of the whole year and the success or failure of the beer industry is going to be determined by what happens in the summer months and the impacts of previous price increases and the impact that that's had on wine and spirits and beer, we look at the total picture and we think that beer is heading for a flat to down one industry when all is said and done, when you get to the end of the year. And within that, Bryan, our brands are performing really, really well.

I'll give you Canada as an example. Canada, the industry has been tough. The consumer is actually struggling in Canada quite a lot. But we're growing our business, we're growing our volume, we're growing our share in Canada despite that, and that's because our brand portfolio is healthy.

And I tried to illustrate that in my talking points, and it applies to the United States as well. We've got a healthy brand portfolio. We've got some challenges that we need to turn around. Tracey referenced Blue Moon, we need to turn that brand around and we've got the plans to do it and we're going into innovation spaces which are attractive and exciting for the consumer. So, overall we feel pretty good. Kaumil?

Kaumil Gajrawala

Analyst, Jefferies LLC



Hi. I start to make this so short-term after that presentation, but obviously you have a strike in Fort Worth. It sounds like it's about 15% of your volume, but maybe 100% of some really fast-growing brands like Topo, and Simply and those sorts of things. So, wonder if you could just kind of clarify if these figures that we're hearing are accurate?

And then, for how long before that brewery is operating at 20%, how long before we deal with out-of-stocks and those issues? And then Tracey maybe, some line of sight on the cost of the contingency plan, whether it's overtime at the other breweries, inefficient shipping, all those types of things?

Gavin D. K. Hattersley

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

A

Thanks, Kaumil. Yeah. Look, I thought that question might come up. We've been negotiating with the Teamsters now for quite some time. We've had a lot of negotiating sessions, and unfortunately, we weren't able to reach a deal that worked for both parties.

Just like any other company would do, we prepared for the event that we would get to this point. So we had a very comprehensive and effective contingency plan. When the Teamsters went on strike on Saturday, we kicked off that contingency plan.

And, our brewery was up and running on Monday morning. We packaged beer, we brewed beer, we delivered beer. And in fact, we actually delivered more than our contingency plan actually suggested. So the brewery is off to a great start, we've got five other breweries where we can shift volume to if we need to.

As Tracey and I have talked about, we've had contract brewing come out of our business over the last year. We had a big chunk of contract brewing coming out in Q4, we've got a big chunk coming out in Q1. And it matters as you head into summer, right? So that's capacity we didn't have and we'll be able to shift capacity into the five other breweries that would perhaps have gone to Fort Worth if we need it.

From a flavor point of view, you referred to that. We started out that business in a contract brewing arrangement as we learned whether we had something here. And so we've had those contracts, we use them all the time and we'll just shift more volume there.

So, our contingency plan is in place, it's working and yeah, that's about all I can say about it, we feel really good about it. Well, we don't feel good about the fact that we're on strike, right? But I feel really good about the fact that we've got a good contingency plan. We're in day three of brewery operations and it's working really, really well. Maybe I missed that.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

Thank you. Andrea Teixeira, JPMorgan. I was hoping if you can comment, a lot of the CPG that came here, talked about a slowdown, especially the low-income consumer and including Coca-Cola, Pepsi, have talked about that.

Can you comment on how you're seeing the consumer at this point? And also in terms of like how your mix is prepared? I know you for a good reason, you got rid of some of the economy beer in the past. So, if you – given a proposal as low down, if you prepared for that scenario?

Gavin D. K. Hattersley

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

A

Sure. And Tracey, you need to answer Kaumil's...

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yes.

Gavin D. K. Hattersley

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

A

...second question. I forgot about that. But just to your question, Andrea, we're not seeing consumers move down. That's been a pretty consistent trend. The premiumization in the beer category has slowed down, but that's more of a function of seltzers, which have slowed down quite a lot.

We're not seeing trade down. We are seeing consumers move perhaps into different package choices. We've seen them grow more in single serves, we've seen them grow more in bigger packs, a little bit of a squeeze in the middle as they look for value. But in terms of trading down from above-premium to premium to economy, we haven't seen that, Brian, you haven't...

Brian Feiro

President of US Sales, Molson Coors Beverage Company

A

No.

Gavin D. K. Hattersley

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

A

...seen it for sure. Do you want to take that?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. From a cost [indiscernible] (00:50:15), it's immaterial right now. It's not material. As Gavin said, we've got five other breweries, that have capacity that can make the beer. And we're using current employees to do the beer, to make the beer in Fort Worth at the moment. So it's not material.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Want to take one more or that might be all we have time...

Gavin D. K. Hattersley

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

Okay.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

...for today. Pardon? Exactly. Happy Hours. So thanks everyone for coming. Let's move this over to Happy Hour. Please remember to bring everything and take everything out of the room, everything you brought in. And also, please join me in thanking Molson Coors again for a great presentation and sponsoring the Happy Hour. Thank you.

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