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Molson Coors Beverage Co. (TAP)

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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

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

MANAGEMENT DISCUSSION SECTION

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

All right. Welcome, everybody. Good afternoon. So we are delighted today to have once again Molson Coors here. And we get two for the price of one today. So we get – we have Gavin Hattersley, President and CEO; and we have Tracey Joubert, CFO here. So thank you both for coming back. I can already guess what questions I'm going to be getting on the iPad, but I promise we're going to hit every aspect of the business today. But before we dive into all the questions I have, first of all, could you start by giving a broad overview, perhaps, for those in the audience who don't track you guys as closely as I do. What are your strategic priorities for the business?

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

Thanks, Nadine, and thanks for having us on. Look, our strategic priorities are all grounded in our revitalization plan, which we launched nearly four years ago. And that had several letters to it. And, Tracey, maybe you can talk to the capabilities one. But at its heart was restructuring how our business operated. So we took out a significant amount of cost at the time. And the objective of that was to put that money around our three pillars of our brands and our fourth pillar of capabilities and our people.

And the other thing which it did was it very nicely removed a significant amount of, how should I say this, maybe bureaucracy in our organization that made us much more nimble, much quicker to react to things. At the same time, we changed our mission and our values and so on. So that set the scene for us as we were coming into 2020. And the focus areas for our business was our core brands, whether they were the core brands in the United States, Miller Lite, Coors Light; core brands up in Canada, Coors Light, Molson Canadian, or core brands in our European business, whether that was Carling or Ožujsko or Staropramen, and so on.

First and foremost, if we're going to be successful as a business, we need to make sure we had healthy core brands that are the biggest profit driver in our business and also obviously a big volume driver.

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The second area of focus for us was changing the shape of our portfolio into the above premium space. So, I think brands like Blue Moon, Leinenkugel's, Peroni in the United States, and then our above premium brands in Europe and in Canada. We're competitively disadvantaged at that time in terms of the share of our portfolio. That that contributed – contribution came from above premium, it's really important that we accelerate our impact there.

And the third area was moving beyond beer. And that's into spaces like seltzers, flavor more broadly, non-alc, hard liquor in some respects as well to reshape the shape of our portfolio from that perspective as well. So above premium, big focus area for us. All of the beyond beer space is really above premium. And so taking the global share [indiscernible] (00:03:42) was from 23% to a much bigger proportion of our business was a core strategic priority for ourselves.

From a capabilities point of view, also an area of big focus for us.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Yeah. So, in terms of capabilities, we've invested both behind our people, but we've also invested behind our breweries. So if we think about breweries, for example, we've built two new breweries up in Canada. We've also – we're on a project at the moment to modernize our Golden brewery in Colorado. And then we brought in-house capabilities that we didn't have before. So flavor capabilities, which now enables us to do brands like hard seltzers, like Simply flavors. We now have flavor houses in our breweries, so we're able to do that, which actually is good from a margin point of view because we're not co-manufacturing those brands, we're doing it in-house.

And then we've invested in capabilities in our marketing. So understanding digital marketing, making sure that we've got the right tools to measure our return on marketing investments, and then also invested in insights and analytics capability. So we've got a whole team now that tracks consumers, customers and a lot of the sort of KPIs that drive our business.

Gavin D. K. Hattersley

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

And to cap all of that, Nadine, was obviously the single objective that we have was to grow the top line and bottom line of our business. Four years ago, that was something that we hadn't done in a very long time. And so, all of this work we're doing from a strategic point of view was with that end goal in mind. And the fact that we did what we said we were going to do and it had the result we wanted, last year, we grew both top line and bottom line. Again, this year, our guidance is out there for top line and bottom line. And so, we feel like our strategy is working and we're going to keep focusing on it.

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QUESTION AND ANSWER SECTION

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

All right, perfect. So before we dive into the big share shifts we've seen over the last couple of weeks, I'd actually like to focus on light beer from a slightly more long-term perspective. So if I look at the last decade, light beer as a whole had been losing share. So what do you see as the role of light beer within the US for beer today? And how does that inform your view on Molson Coors's growth going forward?

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

A

Yeah, it's a great question. And if you go back 10 years, 15 years, 20 years, 5 years, it doesn't matter, somebody's been calling light beer dead for a long time. We don't particularly share that view. I think the data doesn't support that view. More than half of the beer consumed in the United States, I think it's 52%, is light beer. Light beer is here to stay and it's a core – an important area for us. When craft beer had its explosion back in the early 2000s, I think folks were predicting the death of light beer and that craft beer was going to be bigger than light beer. I hope that wasn't you.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

No, it was not me.

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

A

And when seltzers exploded into the scene four or five years ago, the same predictions were made.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

I guess.

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

A

And I think many pundits said that seltzers was going to be bigger than light beer in a fairly short timeframe. And of course, we all know these things haven't happened. And light beer through all of that has remained resilient. The American consumer likes light beer. It's a go-to subsegment for them, and that's not going to change. I think the dynamics within the subsegment might change, but the overall consumption of light beer is not going to change materially.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

All right. And if I then dive one layer deeper to share shifts on that long-term period within light beer before what recently has happened, your brands were gaining share. What would you describe as the drivers of that share gain, especially over the last few years?

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

Yeah. Look, I mean, you're right, I think we've been gaining collectively with Miller Lite and Coors Light for the last almost nine years now. And over the last four years since we launched our revitalization plan, I think our teams have done a really nice job of making it very clear what those two brands stand for, making it very clear or pulling them apart so they've each got their own swim lane, Miller Lite, taste, It's Miller Time; Coors Light, refreshment, and how we bring it to life.

And I think we've been maniacally focused on making sure that those brands are consistent and they come to life consistently with our consumer. I think if you had asked consumers 10 years ago what Miller Lite stood for, they probably wouldn't be able to tell you. [indiscernible] (00:08:43) people inside our company, you'd probably get three or four different answers. You don't get that situation now either in the company, in our distribution network with retailers or with consumers. I think everybody understands what those two brands stand for.

The teams have brought them to life in a very consistent way, and we've also invested behind them. And that's why we took those structural changes and costs out of the business. We wanted to take that $150 million and put it, first and foremost, behind our core brands to make sure that they were properly funded. And I think we've done a pretty reasonable job of it over the last four years, and you can see that in the share trends. And we came out of last year in a strong place, and we came out of the first quarter in a strong place with those brands.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

All right. So now turning to the really big share shifts that we've seen over the last two months. We obviously have all seen the Nielsen data. But are you able to offer any more timely takeaways as to what you're seeing today?

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

Well, Nadine, we don't give in-quarter guidance, right? From a volume perspective, you certainly see the data in [indiscernible] (00:09:47) just like we do. And it's hard to add more to that, right? I mean, we are focused on our brands. As you know, we came into this year wanting to invest more behind our portfolio. And core portfolio, whether it's here in the US or in Europe or Canada is really important to us. And so, we had those plans in place anyway. And as I said, coming out of the first quarter, the performance of those two brands was strong. And so, we'll continue to invest what we thought we were going to invest and put the focus on those brands, which we believe are necessary.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

Okay. So I appreciate you can't comment on in-quarter numbers nor what I asked you. And you did made the decision of when you commented on your guidance at the last results to make it clear those did not include any of the changes we were starting to see in the market. I think that made sense. It's still very early on.

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

Right.

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Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

How should investors here in the room think about framing their guideposts [ph] for (00:10:52) guidance now that we've had two months of these big share changes, and by the time we get to results, it'll open a couple more?

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

A

Right. So, yes, I mean, obviously, at the time of the first quarter earnings, there were two things, right? That was very early days. And frankly, nobody then and I think nobody now could reliably predict how long was this share shift is going to continue for.

And the second thing is, obviously, we have some caution around the consumer environment. There was a lot going on in the first quarter with relatively easier comps with the Omicron virus from last year, which particularly benefited in the on-premise.

The Pacific region, the West was particularly tough. I mean, they had really, really tough weather situations out there and that's big beer-consuming market. So there was a lot going on there. But at the same time, we've got a fairly uncertain economic environment with inflation at the levels at which it is and interest rates rising at a reasonable clip. So, that obviously led into our caution around doing anything from a guidance point of view.

The next time that we will have an opportunity to give guidance is at our second quarter earnings, which I think is in August. And by then, we'll have most of summer under the belt. We'll have a much better feel for some of these share shifts and how prolonged and sticky they will be. But you and the investors are seeing the same data out there as we're seeing, obviously.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

You mentioned being cautious on the consumer given the macro environment. What are you seeing today in terms of down trading, changes in consumer activity, or is it still broadly resilient?

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

A

It's not terribly different from what we said at the first quarter earnings call. We are still seeing premiumization, albeit at a slower pace. I mean, some of that is driven by the slowdown in the seltzer market. We're not seeing a lot of trade down into the economy portfolio. The strength of our economy portfolio is coming from a different angle. What we are seeing, perhaps, is consumers making different pack choices and, frankly, making more trips to the store. So somewhat of a bifurcation. The lower-income household tending to downsize from a pack point of view and make more frequent trips. And the higher-income consumer actually going in the opposite direction and going into larger pack sizes. But from an overall down trade point of view, still not seeing much of that.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

All right. So some slight changes in behavior...

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

A

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Right.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

...but nothing broad enough that we're seeing something nationally coming out there?

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

A

Right.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay. Now, you've clearly had a huge spike in demand for your products. How is your production capacity and supply chain coping with that?

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

A

The short answer is, well, we – I think it's safe to say that we're battle hardened after the last 3.5 years, right? I mean, we've dealt with any number of dislocations and challenges to our business. And I think that's made – I don't think, I know it's made our supply chain much more flexible and quick to react to unexpected situations. And that manifested itself through a number of different actions. Obviously, we didn't foresee or predict what we're currently going through right now. But our decision to do a SKU rationalization two years ago to allow focus on the brands that really were the bread and butter of our organization is proving to be pretty helpful right now, right, because we removed a lot of complexity from our supply chain, we removed a lot of SKUs and changeovers and so on and just made the business much more efficient.

We also – because of the pandemic changes that were driven into our supply chain and, in fact, into global supply chains and then the Russian invasion of Ukraine and the knock-on impacts that that had, we've spent a lot of time in our supply chain and in our procurement divisions, making sure that we have, plan B, C and D ready in case something happens. So that – all that work had taken place. We came into this year with high inventory levels. We did that deliberately because we didn't know what was going to happen this year. We were thinking that we wanted to make sure that if something went awry with our supply chain, that we had the – as good of a buffer as we could have. And that behavior persisted all the way through the first quarter.

So we came into the year with good inventories. We came out of the first quarter with good inventories. And our supply chain team have done an amazing job of keeping up with this sudden and elevated demand. I'm not saying that there isn't a single out of stock in the country because there always is something, right? But by and large, we are in a really great place. Our supply chain is keeping up. Our upstream suppliers are keeping up. They've done an amazing job meeting our requests for input materials that are somewhat higher than our original forecasts we're doing. So we're well positioned heading into summer.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

So it sounds like the changes that you implemented over the last three years, since really the revitalization plan kicked off, put you in a good position to benefit from what is happening now, despite the fact that there's no way we could have anticipated it?

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

Correct. I mean, there's nothing quite like getting experience and things, right? And I think our supply chain team of all functions in our company have had to deal with any number of things that have been thrown at them. And so, they are used to dealing with curveballs that come their way, and they are dealing with this one really, really well.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

And what about shelf resets, shelf allocation? Obviously, this isn't a small share shift. This is unprecedented. Some are commenting that they might expect in the fall this to have implications on shelf resets. What's your view?

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

I think from a chain point of view that that – that is less likely. I'm not saying nobody will do it, but I think that's less likely.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

Okay.

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

And most large chains do their shelf resets in the spring. And my expectation is that they would continue to do that. I think more flexibility and a more chance of shelf resets would be taking place in the independent channel, which is a large part of the US beer business. I mean, more than half of the US beer business goes through independent C-stores or independent liquor stores or grocery channels. And so, I think there's more of a chance that those retailers are going to make changes if these velocity changes persist. I do think that that's possible.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

And this impact has been, I think, deeper and longer than many had initially anticipated, I would say, myself included. What do you take away from this entire situation when it comes to developing brands in America today? I think that's what every CPG company is now asking themselves.

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

Yeah. So, I mean, it's a great question, and we've had a robust process in place in our organization for quite some time now. I think that's very positive. I think we've got some really strong governance processes that exist within our organization. I also think our marketing and sales teams are as close as they have ever been. Going back four years ago, our head of sales at the time and our head of marketing at the time forged a really strong relationship, and so these were not two organizations heading off in a different direction. These two organizations were joined at the hip and having robust debates about whether something was going to work, whether it wasn't going to work, tweaking it and ultimately aligning and moving forward in a coordinated way. And that process is continuing, even though both of those leaders are different today.

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I also think our relationships with distributors is as good as it's been in a long time, and we get really good input from our distributors about what's working and what's not working. And certainly, our larger programs and our larger campaigns, we take through our distributor council, and I know the teams have got trust and confidence out there in the distributor network that they talk to, to test and bounce ideas off. So, I think the way that we've been growing in our core brands, Miller Lite, Coors Light, in particular, has been robust and strong. And I think we're seeing the benefit of it.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Many of us here might have seen anecdotal pictures, I know there are a lot floating around on Twitter about price discounting for ABI products, begging the question, will there be more broad-based discounting? How does this affect the brand and therefore the broader competitive landscape that your brands sit in? What are you hearing from your distributors and retailers?

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

A

Look, I think it's fair to say that the discounting or promotional activity that you're seeing is not as broad as what you might conclude based on what you're seeing in the press or on social media. So, yes, it does exist, but it's not as broad as you might anticipate. I think the important thing for us is we really do focus in on our brands on a brand-by-brand basis and a market-by-market basis. And we're going to continue to do what we think is right for our brands, taking into account the strength of the brands at the moment, the strength of their brand health, the impact that that might have on brand perception and brand health. And we're going to take all of those factors into account and don't necessarily feel the need to follow some promotional activity which is out there.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

And so given that, if you remind everybody in the room your approach to pricing for this year.

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

A

Yeah. So we did put in historic levels of pricing last year. We put a big increase in that sort of 4% to 6% range in the spring of last year. We put a similar level of increase in the fall of last year. But at times we saw an impact from an elasticity point of view, but it bounced back reasonably quickly to show – exhibit elasticity levels, which were lower than perhaps we would have expected a few months into the price increases.

And I think what our approach is this year is somewhat of a wait and see, right? I mean, I have [indiscernible] (00:22:08) hard time believing that we're going to get anything like the pricing that we got last year. I think that was a fairly historical shift from a pricing point of view. And we've been fairly consistent in our belief that pricing will get back to that sort of 1% to 2% range, which has been the historical average for the last decade or so, if you exclude last year. But we've got time to make that decision. Obviously, what the consumer landscape looks like, what the economic environment looks like, and what the competitive world looks like will drive that decision.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

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And why do you think that price elasticity impact was felt to the extent that it was? Something many investors will ask is, if I look at CSDs, they were taking far more pricing, even though both account for a similar proportion of wallet, of consumer spending. What do you think about beer meant that we saw that price elasticity kick in?

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

A

Well, I think you've got to go a little bit further back than just last year, right? So, I mean, I think beer had been taking higher price increases than perhaps CSDs had prior to that. And I also think that the elasticities, as I said, weren't as great as we – we're expecting them. And that's probably because when you look at other consumer goods, they were taking much greater price increases than we were. So even though we were taking historical levels of price, they did tend to pale into insignificance when you compare them with 40% price increases on eggs or bread or milk or so on.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay. So, related to pricing, if we then shift to margin, so one for you, perhaps, Tracey. When we look at what you've guided to this year, I believe it was gross profit per hectoliter growing in 2023. So how should investors think about the scope for expansion in gross and EBIT margins on a more long-term basis?

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

A

Yeah. So it's gross margin dollars per hectoliter.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay.

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

A

And what we did say is that the gross margin dollar per hectoliter will increase for both our business units, so Europe and the Americas. A couple of things that go into the gross margin. Obviously, pricing is a part that plays in that. But from a COGS point of view, we've spoken about our extensive hedging strategy. So we've got good line of sight as to what our commodities are going to look like over the next 12 months, 24 months, 36 months, depending on the commodity. Our cost savings programs is starting to deliver some of the items we need to mitigate some of the inflation.

We've put a lot of money into our breweries. I mentioned two new breweries up in Canada. They're a lot more efficient, automated, that comes with a lower cost. Some of the work that we've done in the US, for example, in our Fort Worth brewery, I mentioned the flavor capabilities that we've put in place there.

But we've also done things like we've added a variety packer. So what that means is, previous to bringing the Topo Chico and Simply in-house, we were co-manufacturing it. You then bring it into the brewery. Once it's there, you actually send it back out to co-packers. They pack the product for you. You bring it back into the brewery and then you distribute it either to a warehouse or a distributor.

Now, bringing that in-house, we've got our own variety packer. We're making the brands in-house. We're variety packing it in-house, and then we just send it out once to the warehouse and distributor. So from a logistics point of

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view, from an efficiency point of view, that is all helping on the COGS line as well. And then some of the work that's also mentioned ongoing, like the modernization of the Golden brewery, that's going to be more efficient, more effective, that comes with cost savings.

And some of the work that we've already done are taking out some of the SKUs, rationalizing the SKUs. It takes out a lot of inefficiencies. It takes out a lot of complexities. And that has helped the margins as well. And then from EBIT margin, look, we've done a lot of work around marketing spend as well. We believe that we've become a lot more efficient. With our marketing spend, we're getting a much higher return with marketing. More than 50% of our marketing dollars is not focused on digital marketing, which is – which, again, is a little bit cheaper but also a lot more flexible. We can turn off marketing if it's on Facebook or YouTube and we can do it overnight.

And then, we've also brought some of our marketing agency work in-house. So not only is that cheaper, but it gives us more control. It's also much quicker to take ideas to market. And because it's all in-house, so that also is driving some of the EBITDA margins.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay. I definitely want to come back to that digital marketing. But while we're still on the point of margins, obviously, there likely, I suspect, will be positive operating leverage from the unprecedented volume growth that you're seeing. Is there any way, without giving guidance, that you can provide at least some guideposts for investors on how to think about how this is going to impact the business?

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

A

Yeah. I mean, I think what we would say is if you go back to, I believe it was Q2 of last year, we did have volume shortfalls. We did give some numbers relating to deleverage. And basically, leverage would sort of work the opposite way. So, as you think of more volume, obviously, we get the fixed cost leverage benefit from that. So I think it was Q2 of last year, if you go back and have a look at that, you can get a similar idea of what it would mean from additional volumes.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Right. Very helpful. Digital marketing, one thing that we saw recently with the Bud Light situation was I believe it was Senator Ted Cruz approaching the Beer Institute and the approach for not just ABI but I guess companies in general, of how do you approach marketing alcohol brands on social media platforms, which is very different if we cast our mind even just 10 years ago, mainly TV adverts, etcetera. So especially this from a ESG standpoint, when we think about investors here in the room who are maybe less familiar, can you just walk us through how that digital marketing works? What type of age gate procedures are there? And how can you then best market your brands to the right people?

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

A

Yeah, look, the BI has got very, very clear codes, which all of us as part of the Beer Institute adhere to. And obviously, digital marketing is a subset of that. And so there is a level at which we – all of us in the industry won't market if it doesn't meet those particular parameters. One of the keys of those is age gating. There's a reason that beer companies don't show up on TikTok is because it doesn't age gate. And so, you won't see any of us actually advertising on TikTok.

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And there are particular levels of percentage. It's 70-plus, the exact number in my head, but it's 76.3% or 73.6%, one of the two, that the audience has to be above legal drinking age for you to market in those areas, and we are very rigid about how we approach that.

We also have a marketing compliance governance process that meets on a – I think it's a weekly basis. And they go through every single channel that we want to advertise on actually every piece of material that we want to put out there, and they make sure that it complies with the BI code. So I think we've got the processes in place to do that.

We also have an amazing media team. Tracey referenced that is also in-house, and they are also gatekeepers from that perspective. We monitor where our brands show up, how they show up, and make sure that we're in compliance with the code, for sure.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

And how do you find the efficacy of digital marketing versus traditional marketing?

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

A

Yeah. I think it's a lot more flexible, agile. So we can switch off Facebook overnight, whereas your traditional marketing, you've got longer-term media contracts or you've got these big out-of-home billboards that you can't just take down overnight. So digital is more flexible. It is cheaper, obviously, than like a live sports NFL game or whatever. And, yeah, it's just a lot more flexible. We're able to bring things to market much easier and to take things off much easier.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

And I'd just like to remind everybody, you're more than welcome to submit questions on the Pigeonhole link, which you should have that we'll integrate into our conversation. So switching back to the brands in your US portfolio and perhaps focusing on super premium. We've seen up until very recently brands like Michelob ULTRA doing well. We now have Modelo Oro entering that, Heineken Silver. Could you explain how are you viewing that super premium category? Which brands are you using to get that specific consumer?

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

A

Yeah. Our innovation focus at the moment is on beyond beer and particularly the flavor space in the US. I think we've got some really, really successful brands that we launched last year in which we're doubling down on this year, whether that's Simply Spiked Lemonade or Simply Spiked Peach and Topo Chico. Those brands play in the super premium space from a pricing point of view. Both were extremely successful launches last year. And the early signs as we head into the high consumption period for both of those brands is particularly strong.

And so from an innovation point of view, that's where we are focusing. We've also got the largest craft brand in the country, which is Blue Moon, which is a – from a price point point of view and a profitability point of view very strong. And I think we've got some really good plans to expand that brand from both a distribution point of view and velocity point of view as we head into this year.

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I think we also – and I know your question was specific to the US, but we have our most successful innovation certainly in Europe in a very long time was Madrí Excepcional. We launched that brand at the beginning of the pandemic as an above premium brand in the on premise. And that brand has – is a rocket ship. It's exceeded every expectation that we have. It's already our fifth largest above premium brand in the world. It is – has taken over the – it has surpassed brand Bud both in the on-premise and off-premise. It's surpassed Stella Artois in the on-premise in the United Kingdom. And these are brands that have been around for a very long time. This is a brand in its infancy. So we're very, very excited there from an innovation point of view and an above premium margin point of view and the potential for that brand both in the UK and actually beyond the shores of the UK is impressive.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

I was talking to a bartender in a pub in London who said it was their number one bestseller, Madrí.

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

[indiscernible] (00:34:26)

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

Yeah.

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

Yes. It is doing extraordinarily well. And, yeah, it's on the heels of Peroni, which is a very large on-premise brand in the UK. So we're very excited about it.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

And you touched on beyond beer there. Obviously, it has been through a roller coaster over the last four years, whether that's your traditional hard seltzers, your FMBs. How are you viewing the future of that category?

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

Yeah. We look at it in total, right?

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

Okay.

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

So consumers look at flavor sometimes in total. And so we look at it more broadly than just seltzers or just flavored alcohol beverages. We're just looking at it collectively. And when you look at it collectively, that beyond beer segment is doing just fine, and our seltzers within that is certainly down year-over-year. But the space in which Simply operates is not. And it's growing very strongly. And we're going to put a lot of effort behind Simply

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Spiked and Simply Peach (sic) [Simply Spiked Peach] (00:35:30) as we head into the summer months. Demand is very strong for it. It was such a successful launch last year that we couldn't meet the demand. So even though we've got tough comps coming up, I think we're going to exceed those meaningfully.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

And thinking of that beyond beer category, are there any pockets – or even for your portfolio more broadly, any pockets within that that you would like to see yourself play more meaningfully in the next one, two, three years?

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

A

Nadine, there's a limit to what you can do, right? There's a limit to what you can do inside your organization and then also outside your organization with distributors and retailers. And so we do have to be somewhat choiceful. I think we've got two really successful innovation launches from last year, as I said. And we're going to double down on those launches.

At the same time, we are trying new things. So we are launching Topo Chico Spirited around – I mean, in – not everywhere in the country, but in a limited rollout. We do have Roxie, which is a non-alc cocktail, which we're testing in some markets in the country. And we've got Peace Hard Tea coming further on. But in – I think history has shown when we try to do too much, we both overload our own internal capabilities and we overload our system as well. And so, we do need to be choiceful, and that's what we've done.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Well, you mentioned your system. How have your beer distributors responded to the challenge of having a more complex portfolio of brands?

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

A

They are always used to dealing with complexity, because their portfolio – I mean, we bring a lot of SKUs to them. But the SKUs from the non-Molson Coors suppliers is, in most cases, substantially more than we bring. So, we tend to [ph] batch (00:37:32) above the average of SKUs within a distributor's house. But the support from the distributors and as I said, I think our relationship with distributors is as strong as I can remember having been. Their support through this process has been fantastic. We asked them to take inventory up coming into this year and coming out of Q1, they didn't have to, but they did. And the fact that they did support us in that regard has certainly made everybody's lives a little easier now as we face this current situation. So, they deal with complexity all the time, they deal with more complexity than we do, and they're pretty good at it.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay. So turning to the brands once again, if I take a moment on economy, you obviously rationalized your SKUs a few years ago, which simplified dramatically as you touched on, for efficiencies in your operations. But if I ask you the same question I did about light beer, the economy of beer had been losing share for years within beer. So where do you see the role of economy beer today and how does that shape how you think it should be in your portfolio for the years to come?

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

A

Yeah. I think that we've been pretty consistent with our mantra that all segments within beer matter. There is an economy consumer just like there's a [ph] premium consumer (00:38:58), just like there's a craft consumer, just like there's a super premium consumer, there is an important economy consumer as well. It's important to foot traffic for our retailers. And consumers want what they want. And if they want an economy beer or they want a Miller High Life or a Keystone Light and a retailer doesn't have it, they'll go and get it somewhere else. And that's why it's so important that we continue to sell this message that all segments matter.

Now, our SKU rationalization and brand rationalization two years ago certainly has made things more focused for us, and we've got the four economy brands which we focus on: Keystone Light and Miller High Life, and Steel Reserve and Icehouse. It's certainly made our capabilities better because it's more narrowly focused. It's taken some complexity out of our distributors and also our retailers. And I think you're starting to see the benefits of that. I think we've – for a couple of quarters now, even before this current situation, because the current situation has also had a positive impact on our economy portfolio, we were growing share of those core four brands even before this. And I think that focus and attention is paying dividends.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Now, maybe turning to my home country of Canada. Obviously, Canada has had some challenges with the strike that have now been put behind you, and you have the new brewery there as well. But I was digging into the data and I was actually surprised to find that per capita alcohol consumption, overall beer, spirits and wine has actually been falling in Canada, if I look on a 15-year view. And that is in stark contrast to the US where that's been held pretty constant, actually, despite what the headlines say about people's changing consumption preferences. And then within that, beer losing share. So what do you think is actually different about Canada? Why is that per capita number falling? And how does that inform your view as to positioning yourself in Canada going forward?

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

A

Canada – the focus in Canada is the same as it is for us in the United States. We've got the same strategic pillars that we're focused on, whether that's core brands, Coors Light, Molson Canadian, whether it's pushing into the above premium space. In fact, their share of above premium in their portfolio is greater than it is in the United States and then innovating beyond beer. All three of those strategic pillars are consistent and we are seeing success in them. Obviously, last year was a difficult year for us. We had the pandemic. We had the strike which went on for a fair amount of time, and to all intents and purposes, took us the whole year to recover from. We don't have those challenges this year. The focus that we're putting on our core brands, whether that's Coors Light or Molson Canadian, is having results. Molson Canadian is actually growing and growing share for the first time in as long as I can remember.

Our share of the seltzer category is growing. It's interesting that Coors Seltzer does particularly well up in Canada, which we quickly took it out here because we just saw it wasn't resonating with consumers, but it resonates very nicely up there. We've just launched Topo Chico. We've got Vizzy up there. So, our share of the seltzer space is actually greater up in Canada and growing than it is down here. We've just recently launched Simply Spiked up there as well. So, we feel that our beyond beer efforts in some respects are as good as or in some respects slightly better than in the United States. And again, we've got our core above premium portfolio up there with Blue Moon, which we've just recently rebranded from [indiscernible] (00:42:53).

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Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Oh, so is it Blue Moon now, we're back...

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

A

It is Blue Moon now, yes. We're able to do that now. So I think when you look at our overall performance in Canada, I think you're going to see a vastly different outcome than perhaps before. I think the other benefit that we're seeing is the recent structural change which we made to create a chief commercial officer who now looks after our entire Americas business from a commercial point of view, Canada and the US and also our Latin American, South American business. And I – you – I mean, we're only 60 days into this, but you can already see the benefits of one coordinated approach to our brands. And I think that's going to reap big dividends for us north of the border.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Out of curiosity, that change in Blue Moon, from memory when I dug into this, it was a trademark issue. How did you get around that now?

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

A

Let's just say we resolved it.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay. All right. Turning to Europe, so obviously that has rebounded very nicely coming back from COVID. The pubs near where I live are full, which is very nice to see. So now that we have had that rebound, very strong price mix, how do you view Europe fitting strategically into your business? I think it's something sometimes US-based investors don't know as well.

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

A

Do you want me to take it?

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

A

Yeah.

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

A

I'll take it. We like Europe. We really like – we've been...

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

We like to hear that.

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

A

We've been fairly consistent about that. We've got a Western European business, which is recovering nicely from the pandemic, as I said. And I don't want to sing any more praises on their latest innovation, but it's a game changer for us in the United Kingdom market. We've got fantastic capabilities in the on-premise, which is an important space for us. And we're gaining share there.

Central and Eastern Europe probably is a little bit more challenged for us, but not as challenging as we were expecting, because a fairly mild winter had a positive impact on gas and energy costs, which has somewhat flown through into the consumer. I like the health of our brands in Central and Eastern Europe. I think the team have done an amazing job following the same processes as we're doing in the rest of the world. The core brands, above premium and beyond beer, and a brand like Ožujsko in Croatia is a big brand and growing market share, and turned it around very nicely over the last few years. Carling remains the number one brand in the United Kingdom. Staropramen outside of the Czech Republic is growing very nicely.

So when you look at that business and you look at the brands that are doing well, they're all our global brands, whether that's Coors, whether it's Miller Genuine Draft, Staropramen, Blue Moon. These are brands which we believe have potential to have broader reach than just the markets in which we operate.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

With the few minutes we have left, I have two final questions. So the first for you, Tracey, where are you allocating your incremental dollar of capital, and has that changed now given the big share shifts we've seen in the US?

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

A

Yeah. So, look, our capital allocation priorities haven't changed. We'll continue to invest behind our business. That was what the revitalization plan was about. It's to invest to sustainably grow the top and bottom line. And as Gavin mentioned last year, we grew both. This year, our guidance is to grow both. So we'll continue to invest both in our breweries, our capabilities, as well as behind our brands.

The second bucket that we've really been focused on, particularly over the last couple of years, is to strengthen our balance sheet. And we've got a target leverage ratio out there of around 2.5 times. We ended last year at below 3 times. And so we've – we'll have a look at what the debt situation and interest markets look like as to do we further pay down debt or do we refinance? I think the good thing is with the health of our balance sheet, we have got options. We don't have to put it in one particular bucket.

And then the third bucket, and again, it hasn't changed, is to return cash to our shareholders. And when we reinstated our dividend back in 2021, the board was very clear with us that they wanted us to reinstate a dividend that was sustainable, but that could also grow as the performance of our company improved and we've increased our dividend twice since we reinstated it. And so that's another area of making sure that we do give our shareholders a return. But having said that, we use models to make sure that we do invest where we're going to give our shareholders the highest rate of returns and – but it's really those three buckets that we focus on.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

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All right. My final question, which I always like to end on is, what do you believe is the single most misunderstood or underappreciated thing at Molson Coors?

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

A

Most underappreciated thing, I think it's that we're doing what we said we were going to do. When we launched our revitalization plan four years ago, I actually got two slides in my office, which I've kept of all of the comments which everybody had thought on our revitalization plan.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Sell-side comments?

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

A

A bit of both, yeah. Media comments, distributor comments, everybody's comments, right? And some of them were fair and justified, right? Because we hadn't delivered top and bottom line growth in this organization in a very long time. So as hard as some of them were to read, they were true. And we had a plan. We've executed against that plan. We've done what we said we were going to do, even in a very difficult environment, unprecedented environment sometimes, and we've come out of that delivering the top and bottom line, which I think a lot of people were highly skeptical that we were able to do, we did it. And we've got it as our guidance for this year again. And I think, yeah, that's what I think...

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Yeah.

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

A

...somewhat underappreciated is when you look at everything we've had to deal with, we did what we said we're going to do and we got the outcome that we wanted.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Well, I think that's a fantastic place to end. Thank you so much both for the great discussion.

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

Thank you.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Thank you, everybody.

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Gavin D. K. Hattersley

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

Thanks, Nadine.

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