16-Mar-2023

Molson Coors Beverage Co. (TAP)

UBS Global Consumer and Retail Conference

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CORPORATE PARTICIPANTS

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Peter Grom
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MANAGEMENT DISCUSSION SECTION

Peter Grom
Analyst, UBS Securities LLC

All right. Good morning, everyone. Welcome to the UBS Global Consumer and Retail Conference here in New York City. My name is Peter Grom, the UBS US Beverages and Household Products Analyst. And we are very excited to have joining us this morning, Gavin Hattersley, President and Chief Executive Officer; and Tracey Joubert, Chief Financial Officer, joining us from Molson Coors. Thank you so much for being here.

So, Gavin and Tracey, you both have been very integral parts of the Molson Coors turnaround over the past several years and were instrumental to the company's Revitalization Plan with the goal of delivering sustainable top and bottom line growth longer term. So, I would love to kind of go over that today. But just for all you aware – for those that are listening to us, we have a series of questions and I plan to run through. If you have any questions you'd like me to ask, please submit them through the apps and they can show up there. If time allows, and I can just call on you and ask on your behalf, if that's easier.

But before we start, I am required to read a legal disclaimer. As a research analyst, I'm required to provide certain disclosures relating to the nature of my own relationship and that of UBS with any company of which I express a view on this call today. These disclosures are available at www.ubs.com/disclosures. Alternatively, please reach out to me and I can provide them to you after the call.

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QUESTION AND ANSWER SECTION

Peter Grom
Analyst, UBS Securities LLC

Q

So, just to start, I kind of want to go back to the Revitalization Plan and before we kind of like think about the path ahead, I think it would be helpful to just kind of take a step back and look at the evolution of Molson Coors over the past few years. And I think there's a question for the both of you, right? And I think when you look at kind of the five pillars of the strategy, what has worked well, what needs improvement like, what are you most proud of ? And conversely, is there anything that you and the team think you could really do better?

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

A

Yeah. That's a great question. Thanks for having us. Peter, I'll take this through, I think first part of that, you can take the second part. We launched our Revitalization Plan, as you say, three years ago and we had the goal of driving top and bottom line growth, which is something that as an organization we hadn't been able to do for a very long time. So if you – there's a lot I'm proud of the team of, but I'm most proud that we actually got to that goal within the three-year timeframe, particularly given everything that we had to face over the last three years, which I think you're all well aware of all the challenges that we faced.

The first thing we did was we restructured our organization. So we went down from four business units to two. And we took a lot of complexity out of decision making. We took a lot of bureaucracy out. We narrowed the lines between the decision makers in the field and the actual decision maker. We just got to market a whole lot quicker. We also wanted to take a chunk of cost out of our business, $150 million at that time. And so I would say that worked really, really well and we are through that now. We've realized all those cost savings.

Then if you look at the rest of the pillars is – there was our core brands and the team have done an amazing job there of improving the health of our core brands. We talk a lot about Miller Lite and Coors Light. We don't probably talk enough about Molson Canadian up in Canada, which has turned around and Carling in the UK, which remains our number one brand in the UK. And then each market has got their number one core brand, whether it's Ozujsko in Croatia or Staropramen in the Czech Republic and so on. So, I think the health of all of those brands is substantially better now than it was three years ago. And we can talk more about that later on, if you'd like.

And then our push into above premium is that – was a core component of the plan. We were – we had a relative disadvantage to our competitors in the above premium space. When we started this journey, I think we were at about 23% of – of our revenue came from above premium. We're now at 28%. We've set a medium-term goal of getting that to 33%. And we're playing in spaces that we hadn't played in before, the seltzers – the hard seltzer spaces. As an example, we've had an amazingly successful launch of Madri in the UK. Probably the best innovation that we've ever come up with, certainly from a standing start to where it is today.

And then we pushed into the beyond beer space, categories and spaces that we just haven't been in, whether that was the energy drinks or hard liquor with Five Trail Whiskey company. So that's from a brand point of view.

Maybe you want to talk about the capabilities and culture and people.

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

A

Yeah. I mean, cost savings is really important. So as Gavin mentioned, we delivered on our cost savings. We had a $600 million cost savings program for three years and $150 million of that came with the Revitalization. So we've delivered on that. But as part of that, we've invested in our business. So we've invested in capabilities in our breweries and we've modernized our breweries. So we've got two new modern breweries up in Canada, one just outside of Vancouver and one just outside of Montreal in Longueuil. we are modernizing our Golden Brewery and we've built capabilities in our breweries like in Fort Worth. We now have seltzer capacity. We brought the production of Simply Spiked into our Fort Worth brewery as well. And then we also doing things like building variety pack lines. But instead of sending our brands out to repack, we now do it in-house. And so that's delivered capabilities that also has contributed to our cost savings.

And then another capability building that we really are proud of is we've brought a lot of our creative agency work in-house, so that delivers speed to market as well as cost savings and analytic capabilities we've built as well coming out of Revitalization. So yeah, we're particularly proud of those two areas as well.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. That's really helpful. And I guess maybe despite all that, the top line has improved, right? But your stock price has kind of been range-bound over the last three years. And I think, I guess it's just kind of based on the questions I get, it seems like some are less convinced that the turnaround is sustainable, right? And it's more of a function of the current environment. And I guess what gives you confidence that that's not the case?

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

A

Yeah. I mean, there are always skeptics out there. There were skeptics out there when we started on this journey three years ago and we hit what we said we were going to do. There were a ton of skeptics around there – out there about the fourth quarter and we hit that. We've now delivered top line growth two years in a row, 2021 and 2022. We've got guidance out there that says that we're going to deliver it again this year. That feels like a trend, Peter.

Peter Grom
Analyst, UBS Securities LLC

Q

Yeah.

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

A

From a bottom line point of view, we delivered last year and we plan to deliver again this year. And, I think the health of our brands are much stronger than they were three years ago. As I said earlier, our innovation pipeline is full. We've launched some really strong innovations last year, both in Europe and in the United States, which we're going to build on this year. Our capabilities, as Tracey mentioned, are stronger. Our balance sheet is certainly in a significantly better place now than it was three years ago. So, the progress we've made over the last three years, notwithstanding everything, sets us up really nicely for the future.

Peter Grom
Analyst, UBS Securities LLC

Q

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No, that makes a lot of sense. I mean, I guess, one of the things that has evolved, I think, during your time as CEO, has kind of been the shift away from volume and kind of more total revenue focus. And we've seen kind of similar transitions in beverages, carbonated soft drinks is a category that kind of comes to mind. So can you just talk about that shift in focus? And, I guess, I know this year from a top line perspective, it's expected to be more price, more rate driven. But, I guess, can the company get back to volume growth as you look out beyond 2023?

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

A

You're right. I mean, our focus has been on the revenue, the top line, that was first and foremost important for us because as I said we hadn't done it before in any meaningful way or in – certainly not consecutively. So that was important for us and that required us to make some tough decisions, narrowing our focus in the economy space, for example, we just had too many brands that were just not relevant anymore, but took up a lot of time, took up a lot of energy, took up a lot of space in the brewery.

And so narrowing our economy portfolio into the four focused brands that we've got now was important driving into the above premium space was and still is really important for us making the tough decisions around contract brewing which is not necessarily beneficial for us for a variety of reasons. And obviously impacts in this instance, both volume and revenue was something we wanted to do. But we want to ultimately get to volume growth, there is – that is certainly something that over the medium- to long-term, we want to be at. But right now, our focus was on revenue and profit.

Peter Grom
Analyst, UBS Securities LLC

Q

When you think about that volume growth is that you just need to kind of improve the mix of above premium to kind of get back there? I know it's kind of at 28%, and you have a target of 33%.

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

A

That's right.

Peter Grom
Analyst, UBS Securities LLC

Q

Is that kind of really just the underlying driver or are there kind of other avenues, if you will, that would drive that return to growth from a volume perspective?

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

A

Well, certainly almost all of our innovation is focused in the above premium space. And the innovation comes both from a created brand from our perspective, like Madri or Blue Moon LightSky, or it comes from some of the partnerships that we entered into with Coca-Cola, for example, with Topo Chico and Simply – not a partnership in the legal sense of the word, but a relationship. Growth is going to come from, innovation is going to come from above premium is going to come from the new spaces that we're not in at the moment.

And then, of course, it's going to come from the existing brands, which we've got which are powerful. I mean, Blue Moon, for example, is the number one craft beer in the country. Obviously, you had a little bit of a tougher time during the early stages of the pandemic because the on-premise closed and it's a very on-premise focused brand, but has now regained its footing. And then the same comments without being repetitive around our core portfolio,

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healthy and gaining share collectively Coors Light, Miller Lite in the fourth quarter is now bigger than Bud Light from a share point of view. And so I think we've laid the foundation to get there.

Peter Grom
Analyst, UBS Securities LLC

Q

No, that's really helpful. And I guess going back to that above premium move, the 500 basis points you've kind of captured in your portfolio from 2019 to today. Can we just take a step and walk back and just understand the components of that? How much of that just simply from faster growth, how much – was it just from exiting economy SKU, just kind of help us bridge from that 23% to 28%. And then I guess going from the 28% to 33%, what are the building blocks to that, right? And I guess, is there's any sort of time line that you have in terms of getting to that 33%?

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

A

Yeah. Look, I mean, just because of math, right, taking out a bunch of economy SKUs did help that ratio. But the much bigger part of that 500 point swing has come from the new innovation and the focus on brands like Blue Moon, like Peroni in the US. Madri, as I said, it's just been a phenomenal success in the UK. Probably the best innovation that we've ever had from a time point of view. I mean, its distribution and velocity is amazing quite frankly and that plays in the above premium space.

And then of course, we're in spaces we weren't in, in any meaningful way three years ago. I mean, we [indiscernible] (00:12:27) start with our seltzer portfolio with Vizzy and Topo Chico, we launched Simply last year. We've got some new innovation coming. So, good, yes, it's across the board.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. And then, Gavin, during the fourth quarter earnings call, you mentioned that you expect medium term growth to exceed the targets you've outlined in 2023. Maybe just elaborate on that a little bit, does that kind of imply mid-single digit top and bottom line growth.

And I know this is multi-part question, so I apologize. But I just would be curious what really drove the inclination to offer that perspective, right? Going back to an earlier point, there's still a fair amount of investors that are skeptical of kind of the – of just low-single digit growth. So just kind of any – I think it would be helpful to understand why you wanted to offer that and maybe kind of the building blocks if mid-single digits is what you were trying to point to?

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

A

Yeah. We thought it would be helpful actually to state the obvious, right, which is I mean, our Revitalization Plan was designed to deliver not top and bottom line growth in one year and then move on from that, but to deliver it consistently into the future. So we thought it would be helpful.

Peter Grom
Analyst, UBS Securities LLC

Q

Yeah.

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

It also directionally says that this year, so – it's a little bit of an uncertain year, little cost pressures which we don't see in the out years. So, certainly offering up that over the medium term, we do see top and bottom line growth as well was – we thought would be helpful for the market.

Peter Grom
Analyst, UBS Securities LLC
Q

Okay. That's very helpful. I guess, maybe shifting gears to more recent performance. It was clear based on some of the public data, the 4Q was a bit more challenged in the – and you've said that relative to your expectations. You talked about the industrywide impact on volumes from the price increases. I guess just on that pricing, is that similar to what we've seen in the past, where you've seen these outsized pricing increases and you see an initial shock and then it kind of comes back.

And then I guess, you mentioned on the call that the trends have really improved in January and the data has kind of suggested that that's kind of continuing to a degree. What's really driving the improvement, I guess? Is it just kind of that initial sticker shock and the consumers are getting over it? Is it some sort of – from an anomaly perspective, is it like easier comps in January a year ago, it's – I know California has been challenged from a weather perspective, but it's something, in the past few weeks, it's been pretty warm across most of the country. So just how – how would you frame kind of the improvement and the drivers of that?

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

Yeah. There was a lot going on in both in the question and in the answer. We haven't put such big price increases into the beer space probably for as long as I've been in the US. So that was – we didn't really have any particular comparison to look at. And certainly, the spring price increases, we saw that. We saw a little bit of softness post the price increase. We saw the same again in the fall and that could be driven by the load-in ahead of the price increase. And so we certainly saw the same effect coming out of the fall price increases we did out of the spring price increase.

Yes, in the United States, the January was – was from a comp point of view a little easier, mostly in the on-premise, because if you remember last year we had the omicron scare which drove people out of the on-premise in January and a little bit of February. We didn't have that this time around so that certainly helped. You don't actually see that data in the tracked data because that's not – it's not really tracked very much. So that was where more of the benefit took place. You're quite right, I mean California's been a little difficult from a weather point of view. That certainly has made that, that challenging. So, a lot going on.

Peter Grom
Analyst, UBS Securities LLC
Q

Yeah. And then I guess just going back, you mentioned that you actually gained share despite that weaker volume. Can you maybe just unpack that a little bit or people just simply drinking less total alcohol?

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

From a dollar point of view, the overall alcohol space went up by about 3 points as I recall, people said 300 percentage -- 300 points, 3%. Beer went up a little bit more than that. Hard liquor went up a little bit more than

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beer and wine was the loser. Wine actually declined from a dollar sales point of view. So, certainly from an overall alcohol space, yeah, we grew a little bit of share and so did hard liquor at the expense of the wine guys.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. So, Tracey kind of – US pricing, right, you kind of touched on 2023 revenue growth being more price driven rather than volume. Can you just remind us of the building blocks of that? How much of that is rollover from 2022, can you expect further pricing actions? And I think the answer to the latter is yes. But can you just maybe talk about how the external environment kind of may impact your thought process? I mean there's just a lot of volatility day to day right? So, how does the external environment impact your ability or willingness to take further price?

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

A

I think if we look at last year – let's just go back to last year, I mean, we took a 5% increase in the spring and then we took another 5% increase in the fall. And, Gavin spoken about the sort of volume impacts and the consumer impact. So, that pricing was significant. I mean, we haven't seen that kind of pricing in the beer industry for – forever, I think. But the consumer has been pretty resilient. Even if we look at our outside of the US markets, UK is – has – the consumer there has returned to the on-premise. We took pricing there as well. On-premises is back to sort of pre-pandemic levels so. And the consumer – the beer consumer is proving to be quite resilient, as I say.

In terms of, as we look at this year. We wouldn't take the spring increase like we did previously, there's some small markets where we didn't take an increase last year. And so you may see in some markets a bit of an increase. And then as we get to the fall, we'll evaluate what happens – what the consumer is doing, what our competitors are doing. I mean, there's still a lot of uncertainty as it relates to the consumer. So we'll visit that as we sort of get closer to the fall.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. And then, Gavin, you alluded to this earlier, Coors Light and Miller Lite performing exceptionally well. It's been that way for several years at this point. But I guess – and I know this is a question you used to get a lot, but it was harder for it to see – the brand to kind of grow share at the same time. It was one versus the other. And I guess what has allowed them to kind of both perform well at the same time?

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

A

Yeah. That's a great question. I mean, I think our marketing and sales teams have done an amazing job bringing those two brands to life. Our marketing team has done a nice job of differentiating Miller Lite and Coors Light and our Coors Light standing for refreshment and chill and everything that goes around that. And then Miller Lite standing for what – tastes like a beer, beer taste has been its focus. And they've done a nice job of single-mindedly driving those two particular tracks.

I think the other important thing is that we've done that consistently. If you had to level criticism against us in the past, I would say that that would be it, right, in some cases, the consumer wouldn't really understand what the brand stood for because you would move from this campaign to that campaign to this campaign, they're all quite different. The marketing team has been really, really solid on how they brought those two brands to life and they've been very consistent about it.

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So, that's a big driver for us, making it really relevant with the different age demographics that are so important to each of those – those two brands.

And then we've driven really strong execution through our distributors and our sales teams from a feature and display point of view. And in fact, that accelerated in the fourth quarter on the publicly available data. And both of those brands outperformed their biggest competitor Bud Light from a feature and display point of view.

So, it's the total package and consistency and you can see that in everything we do, even March Madness, getting Dick Vitale to chill when he's not exactly known to be a chill guy, it's just another way of bringing that to life.

Peter Grom
Analyst, UBS Securities LLC
Q

That makes a lot of sense. Shifting to below premium, and kind of the economy SKUs. I mean, the data has kind of suggested that, the category – this segment of the category seen some solid momentum over the past few months. I mean, where do you think this incremental volume is coming from? And do you kind of expect this, if you want to call it a trade down dynamic, do you kind of expect it to continue as you look out over the next few months?

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

We haven't seen much of a trade down, frankly. I mean, certainly premiumization has slowed...

Peter Grom
Analyst, UBS Securities LLC
Q

Yeah.

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

...primarily driven by the seltzer space. But we haven't seen a lot of trade down from a brand point of view. We have from a pack point of view, particularly with lower income households that are driving down into the smaller pack sizes. But on the other side, the higher income households are driving up into the larger pack sizes. So a little bit of a less in the sort of mid-sized packs.

From our perspective, the focus that we've brought to our economy portfolio by getting rid of so many SKUs and so many brands and now focusing just on the four core economy brands, Keystone Light and Miller High Life, Steel Reserve Alloy Series and Icehouse has really reaped benefits. From our perspective, we've been able to have more focus on them. We've been able to put more investment behind them. There's more consistency in the supply and it's just all around been solid for us.

Peter Grom
Analyst, UBS Securities LLC
Q

Great. And then I guess shifting to beyond beer and maybe specifically Topo Chico and Simply Spiked, can you just talk about the partnership with the Coca-Cola Company? And how these brands are kind of performing versus your expectations? And I guess, just from your perspective, is there – we've seen a lot of these brands that are traditionally non-alcohol move into the alcohol space. So, is there further opportunity to add more traditional non-alcoholic brands?

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

A

Yeah. A lot of questions in that question. So, look, our relationship with Coke is strong. We work very well together with them, and we're very pleased to have Simply and Topo Chico as two of the brands in our portfolio. The way we're looking at the space is more from a flavor point of view. So, there's much talk about hard seltzers coming off, but at the same time, just the spirits side of it is lifting up, and flavored malt beverages, which have actually been around for a long time, is also starting to perform better. And we've got brands in each of those three spaces.

To your question about how have they performed, I mean, honestly, they performed better than our expectations, much better, particularly with Simply. I mean, we launched Simply out of cycle in late June of last year and the response was very, very positive to the extent that we couldn't meet demand.

Now, we brought the brand in-house, so we're producing it in-house, which has two benefits. One is it improves the margin. And secondly, we control supply and it can be more stable. So, we're looking forward to a really strong summer with Simply.

Topo Chico, we had a two-pronged launch. We launched in some specific markets a couple of years ago, and then, we expanded in January of last year to the whole country. And because of that, we obviously had a lot of load-in in January, and we're cycling those now and we through that and the brand is positive coming out of that from a growth point of view. We've got new innovation coming around Simply with the new peach flavor.

We've got Topo Chico Spirited, which is going to play more in the Spirited side of the flavor house and then we've got a complete refresh of the visual identity of Vizzy, and a more focused approach there. So, beat our expectations. Love the innovation we've got coming. Relationship with Coke is strong. We think it's going to be a meaningful driver to the 33%.

Peter Grom
Analyst, UBS Securities LLC

Q

Great. I mean, I guess, you kind of alluded to this in your – the initial portion of that response. But I'd be curious how you think about kind of the relationship between hard seltzers and FMB. And I guess just kind of striking to me is just the number of new brands and SKUs that are coming into FMBs. And it almost feels very similar to what happened in hard seltzer, right, to some degree, where the consumer got a little confused and consumers kind of maybe went back to traditional alcohol beverage categories like beer. So, I mean, I guess do you view that as a risk as you kind of look ahead with just all these new products, and all these new brands kind of coming to go after their share and FMBs or ready-to-drink cocktails?

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

A

I would see it as an opportunity more than a risk, because if you've got strong brands that are meaningful to a consumer and you've got brands which they like the taste of, because taste is really important in this space, you can be a winner. And notwithstanding the fact that seltzer has slowed down a lot, it's still a very big space. It got to about 10% from a value share point of view, and that's dropped off to about 8-ish. But there are going to be some clear winners in that space, and there going to be some clear losers. And we plan to be one of the winners with Topo Chico and Vizzy, primarily.

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And then, the other reason why we've structured ourselves around flavor is that – is the consumer does move around between these flavors. So, if you look at that whole flavor space, it's growing. So, there's a lot of focus on hard seltzers being down. But when you look at the total space, it's still growing and it's a big space, and so, I see it as an opportunity as opposed to a risk.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. So, we spend a lot of time talking about the US. Maybe shifting gears international, maybe kind of give a State of the Union in terms of what you're seeing in some of your core markets, maybe the health of the consumer and have you seen any meaningful shifts in kind of demand or whatnot since results a few weeks back?

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

A

Yeah. Look, I mean from a UK point of view, it's remained resilient somewhat surprisingly, given the economic environment there and the level of labor activity which has taken place there, but it's remained resilient. On-premise has remained resilient. I don't want to oversell Madrí, but it is doing remarkably well and is one of our top five best premium brands in the world now, and still growing strongly.

I can't really say the same for Central and Eastern Europe. It's tougher there. Disposable income from consumers is being eaten up by the high gas energy prices, food prices and so on. So, a little bit more challenged there. It's a small part of our business. UK is more much more important to us than – from a volume and value perspective than Central and Eastern Europe, so a bit bifurcated.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. So, Tracey, let's just shift to profitability. You outlined an expectation for inflation this year, albeit at a lower rate. Can you just maybe walk through the building blocks of that outlook, and kind of where do you have visibility and where do you kind of still see the biggest pressures at this point?

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

A

Yeah, so we did say that we expect inflation to continue to be a headwind this year, but sort of moderate slightly towards the back half of this year. A couple of things that goes into our profitability. So, we've spoken about the pricing and our premiumization. The mix of that portfolio moving more to the above premium space. So, that obviously drives top line.

From a COGS point of view, there's a couple of things that obviously is really important to be focused on. One is commodities and the hedging. So, we got really good visibility to that and also we're comfortable with our hedging levels for 2023. And then, we've got cost savings. So, I've mentioned a lot of the investments that we've been making in the business over the last couple of years is going to drive the cost savings. It's driving efficiencies. It's driving capabilities and capacities that we didn't have before that helps margins. So, we'll continue to really drive efficiencies and cost savings.

Now, having said that, there are some areas of COGS input costs that we can't hedge. So, freight is one, but we are seeing the freight markets coming down a little bit. And so, that's certainly helping. And then some of that, our third-party co-manufacturing costs are linked to indices like PPI. So, that's not hedgeable, and obviously could be a significant input. But we have given guidance out there that we expect our gross margin per hectoliter for 2023

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to increase. And we've also said, over the medium term, to have both top and bottom line growing, but bottom line growing at a faster pace or higher rate than the top line.

Peter Grom
Analyst, UBS Securities LLC
Q

Okay. And then maybe building on that last point, I mean, further gross margin expansion, is that simply that there's just enough pricing to offset the degree of inflation? Or is there kind of just cost savings that's also helping that?

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

It's in both. And over the medium term, we kind of are expecting inflation to sort of get back to more normalized levels. Obviously, the last couple of years with COVID and the supply chain challenges and the Russian war in Ukraine has driven a lot of that inflation. But, hopefully, over the medium term, we can kind of get to a more normalized top of inflation level. So, that's what we've been putting into our assumptions.

Peter Grom
Analyst, UBS Securities LLC
Q

Okay. And then just on the – on cost savings, the company has a tremendous track record there. But we've kind of reached the end of these official programs, if you will. So, how do we think about cost savings and productivity moving forward?

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

Yeah. Like it's just a way of life at Molson Coors. I mean, we're always looking at cost savings. We're always looking at efficiencies. And as I say, some of the investments we've made over the last couple of years is going to continue to drive those efficiencies and cost savings, whether it be our new breweries, more automation. Some of the things that we've done with the variety packer in Fort Worth, and bringing some capacity from outsource into in-house that obviously helps margin. So, it's just something that we always get to focus on. And I think we're pretty good at delivering the cost savings, and so we're not going to just stop.

Peter Grom
Analyst, UBS Securities LLC
Q

All right. Okay. That makes a lot of sense. So, I kind of wanted to shift to kind of marketing and reinvestment a little bit. The guidance clearly embeds, I guess, some degree of higher SG&A and low single-digit top line growth and gross margin expansion in kind of low single-digit profit growth. So, can you maybe just walk through where you see the biggest opportunities for reinvestment?

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

So, from a marketing point of view?

Peter Grom
Analyst, UBS Securities LLC
Q

Yeah. Or even supply chain or whatever.

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

A

Yeah. So, I mean, we have said that, for 2023, we do plan on investing, increasing our investment in marketing and it will be behind the areas that Gavin's spoken about. So, our core brands, continuing to build on the strength of our core brands, also around innovation. So, he mentioned some of the stuff that we've got in the pipeline. But we're also becoming a lot more efficient with our marketing spend. So, driving a lot more return on marketing, because of the steps that we've made into digital – into the digital space, where more than 50% of our investment now is in the digital space. But bringing some of the in-house – sorry, bringing some of our agency and creative work in-house is helping drive that as well.

So, yeah, in terms of investments, we'll continue to invest where it makes sense. I don't know if you mentioned – we had an opportunity to invest in the Super Bowl this year. It's not something that we were planning on this time last year. But we are able to do sort of shift the investments we invested behind the Super Bowl this year. Last year, in Q4, we had an opportunity to invest against Spanish language TV against the World Cup. And so, we took that opportunity. So, we don't look at marketing on a sort of month-by-month investment, but I mean we have enough flexibility that we can take advantage of opportunities that are given to us. So, we'll continue to invest where it makes sense and where we get the highest return.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. And then, last – one more and then we can open it up to questions or see if there's anything on there. But there's just kind of a lot of discussion in the industry around normalization of earnings versus kind of reinvestment, as you look out beyond. And I guess I just would be curious, if some of these external challenges become more favorable, whether it be FX, commodities, how do you think about the potential benefit to the bottom line? In other words, how do you balance kind of letting some of these savings potentially flow through to earnings versus kind of maybe taking some of that favorability and reinvesting it back into the business?

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

A

Yeah. So, we've got these capital allocation priorities that we focus on, so, three buckets. One is investing in the business. So, whether that'd be in our breweries, building capacities or around cost savings or investing behind our brands or maybe small bolt-on M&A – Gavin has spoken about a string of pearls approach. So, we look at that, we look at strengthening the balance sheet. We've done a really good job I think in paying down our debt to getting to the leverage ratios that we are at now. We've given a target leverage ratio of around 2.5 times. And then, returning cash to shareholders. So, we look at those three buckets, but we do it in a very disciplined way. We've got models that we run all of our investment decisions through and look at where we're going to give the highest return to our shareholders. And we have those discussions with the board. So, the models help us make those decisions for sure. But those are the three buckets that we look at.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. I don't see any – are there any questions in the room, if anyone wants to – like an ask or – all right. Well, I...

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

A

[indiscernible] (00:35:51).

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

A

There is another one right here.

Peter Grom
Analyst, UBS Securities LLC

Q

Oh, yeah.

Q

[indiscernible] (00:35:55-00:36:07)

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

A

Look, I think in a world where moderation is becoming more important to folk, taking share from hard liquor is definitely something that we would focus on. And certainly, over the last while, wine has been bleeding share to the overall beer space and actually hard liquor as well. So, I do think from an overall – if you look at the overall alcohol category, there is an opportunity for beer to take an increasing share. Absolutely.

Q

[indiscernible] (00:36:44-00:37:00)

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

A

Look, I think the highest priority we've got is to make sure our core brands are as healthy as they can be and as stable as they can be. And so, that's where we put a lot of time and effort. It's well known that it's two-thirds of our volume profitability, give or take, right? It's sort of in that ballpark. So, it's important that we are successful with those brands. So, we spend a lot of time focusing there, and then growing into spaces where we haven't necessarily been, has been another focus area for us, and that falls into the above premium bucket.

From a capability point of view, as Tracey said, we sometimes learn as we go and with any innovation, of course, we're going to make some mistakes and course correct and improve. And I would say that is certainly the case for us as well. We also can be a little cautious, right? I think you mentioned the variety packing. But that's an area we weren't 100% sure we wanted to invest meaningful amounts of capital. But as it became apparent, we were going to be very successful in this space. So, we were willing to invest the capital and course correct from that perspective.

Peter Grom
Analyst, UBS Securities LLC

Q

All right. Well, I have a couple more, assuming there's – are there any more? Okay. So, Tracey, just going back to the leverage, right, and obviously, the company has a strong history of generating significant free cash flow and you're getting very close to your leverage target. Can you just outline uses for cash from here and maybe specifically share repurchases?

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

A

Yes. So again, we look at the capital allocation in those three buckets, obviously, as we get down to the target of around 2.5 times, there's more options for us. But we would – the third bucket, I guess, is your question around returning cash to shareholders. So, firstly, we've increased our dividend twice, since we reinstated it back in 2021. And as we look at dividends, the target is to sustainably increase that dividend. So that's the one area.

In terms of share buybacks, we've got a small share buyback program, which is really an anti-dilution program from the sort of stock options that we give to employees. But in terms of bigger buybacks, again, we'll make that decision through our models, through discussions with our board and making sure that any capital allocation is going to give our shareholders the highest return possible. So...

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. Well, that makes a lot of sense. And I guess last question, and we'll kind of leave it here is just kind of, Gavin, I guess it's for you, just a non-alcoholic beer, right. And I know you're making investments, you're innovating around it. But we get this question a lot. Just the younger demographic just doesn't seem to consume alcohol to the same degree. And I guess, how would you frame that for Molson Coors? Is that a risk, is that an opportunity? And I guess how quickly do you – or how big do you think non-alcoholic can be really over time?

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

A

Yeah. Certainly, we see the same data as you're seeing, right? The new legal drinking age consumers increasingly drinking in the non-alc space. And that's one of the reasons why we pivoted to becoming a total beverage company. It was one of the underpinning reasons for that is to make sure that we were relevant to all consumers. And so, obviously, beer is going to be a big part of our focus and always will be. Hard liquor will be as well, because we didn't play in that space. And we've got the Five Trail whiskey company, which is got off to an amazing start, given that we've only been doing it for a couple of years, winning awards in all the whiskey festivals. But then non-alc is equally important to us, and that's on both the beer side and outside of beer.

So, we do have some non-alc beers, Coors Edge would be an example, but we've recently – and I mean literally recently in the last few weeks launched Peroni 0.0 which has done very well overseas, matches very closely the taste profile of the alcohol version of Peroni. So, we have just launched that. We have high hopes for that as well. I mean Peroni, the mother brand, is doing extraordinarily well now that its – the on-premise is reopened, because it is primarily an on-premise brand.

And then, we've got the sort of non-beer side of non-alc, whether that's in energy drinks, which is the new space that we've got into with Zoa and a relationship with Dwayne Johnson, and off to a tremendous start, given the competition which it's facing in a very, very big space, very, very big category. So really excited about the potential that Zoa could bring to our business; and then getting into new and different spaces for us, like non-alc cocktails. We've recently launched in a number of markets in the US a brand called Roxie, which is focusing on the person who wants to drink a cocktail, but non-alc version. So, it is definitely a space where we're getting into. It's definitely a space our innovative team is focusing on.

How big it can get? That's a hard question to answer because we don't know, but it's certainly a space that we want to be in. It's got a much bigger relevance in our European markets, and so, we've got offerings there in all of

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our markets that we operate in. So yeah, big focus for us. I see it as an opportunity, actually, not a risk, and the very reason why we went to being a total beverage company as opposed to just a beer company.

Peter Grom

Analyst, UBS Securities LLC

Great. Well, thank you for that. We're kind of out time. So, Gavin, Tracey, thank you so much for joining us today.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you.

Peter Grom

Analyst, UBS Securities LLC

We thought it was incredibly helpful and thankful, and we wish you nothing but the best of luck moving forward.

Gavin D. K. Hattersley

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

Thank you.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thanks, Peter.

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