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Molson Coors Beverage Co. (TAP)

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CORPORATE PARTICIPANTS

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

OTHER PARTICIPANTS

Vivien Azer

Analyst, TD Cowen

MANAGEMENT DISCUSSION SECTION

Vivien Azer

Analyst, TD Cowen

Hi. Welcome back. Vivien Azer, TD Cowen's Beverages, Tobacco and Cannabis Analyst. I'm delighted to be joined by Molson Coors CFO Tracey Joubert. Good afternoon, Tracey.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Hey, Vivien. Thanks very much for having us. Very excited to be part of this. So, again appreciate us being here.

Vivien Azer

Analyst, TD Cowen

Absolutely. And thank you so much for taking the time. I'm excited to – to revisit some of the medium and nearer term topics and questions that I've been getting with investors, because obviously your name has been quite topical in all of my meetings. I think maybe Tracey, we could take a step back and start with the medium term algorithm and then take it from there.

QUESTION AND ANSWER SECTION

Vivien Azer

Analyst, TD Cowen

Q

So, when you started the year, the intention was to generate low single digit growth in 2023, accelerating to mid-single digit growth in 2024. Obviously, a lot has changed this year competitively in the US. That said industry fundamentals are also normalizing. So, can we just start off by level setting on your mid-single digit aspiration and dimensionalize how you're thinking about geographic contributions to that?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

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Yeah, sure. So, look, when we issued our medium-term guidance on our Q4 2022 call, we did say that we anticipated delivering higher top and bottom line growth rates over that period than we expected in 2023, so beyond 2023. And at the time, the 2023 guidance was the low single digit constant currency growth for both top and bottom line. And we also said at that point, that we expected to see margin improvement over the medium term, which supported our goal to continue to premiumize our portfolio with our above premium to reach around a third of our global NSR in the medium term. So, yeah, you're right.

So, a few things have changed quite a bit since then and those changes then led us to raise our key financial guidance on our Q2 call to a high single digit NSR growth and 23% to 26% underlying pre-tax growth. And again both are on a constant currency basis. So, yeah, a lot has happened this year which allowed us to do that.

In terms of dimensionalizing the contributions, I mean certainly the US is our largest market and we expect to grow. That's obviously with what has happened, but we also expect growth across our entire business. So, if you look at Q2 and as an example, our two biggest brands in our biggest market obviously played a large role, but our entire business contributed meaningfully as well.

So, if we look at Simply Spiked for example in the US, big contribution from that in the above premium space, Coors Light and the Molson Brand franchise in Canada also contributing to that. And then Madrí in the UK, we have spoken about our Madrí brand, which is hugely successful in the UK, that had a big contribution. And even brands like Ožujsko in Croatia, which is a – is the largest brand in Croatia, big market share, all had contribution. So, and across our geographies, we are really, really happy with the growth that we are seeing.

And then, we are having a Strategy Day on October the 3rd and maybe plan to actually give a little bit more detail. We plan to discuss our long-term growth expectations. And some other things around strategy. So, really excited for that in a couple of weeks. But we have spent the last three years really building our business to sustainably grow both the top and bottom line. And we've been delivering on that. , we grew both top and bottom line in 2022. We are going to do that again in 2023. And all of our markets are going to play a role in that.

Vivien Azer

Analyst, TD Cowen

Q

Absolutely. That's helpful. And I don't of course want to take anything away from the October 3rd Analyst Day, which I'm very much looking forward to. But, one of the things that we just talked about with Lester Jones from the NBWA was kind of the – just the normalization in pricing or excuse me in volume trends for the beer industry. And just how elevated volumes got and the normalization. I think you guys have been pretty clear on calling for that

too, given the amount of pricing that was taken through 2022. What you've seen in Nielsen or Circana data is that broadly still in line with your expectations in terms of the normalization and industry trends?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

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I mean, we are – obviously, we ourselves have seen that big uptick. Historically, I'm sure you know, US industry has grown – has been around minus 1% to plus 1% growth range from a volume point of view. In the latest 13 weeks, the US industry, we look at Circana, was down 1.9%. So, that is a slight improvement over Q2 and Q1 and also an improvements from the second half of last year.

So, there are a number of factors that impacted this, like the California weather in the first half of the year. Obviously that was a big negative from a volume point of view. Hard seltzer declines is also driving that, and then switching to other categories like spirits. As you rightly mentioned, I mean the beer, on average, took much higher pricing in 2022 as compared to spirits. But, still that core beer drinker is incredibly loyal and they've maintained the share of dollars and volume in beer. So, that's what we are seeing now.

I mean it's hard to predict volume for 2024, but we really focus on continuing the momentum for our brands, and again, very pleased that our company and our two largest brands, Coors Light and Miller Lite, are growing revenue, volumes, and industry share and really looking to capitalize on that with some of the plans and investments that we've got for this year and next year.

Vivien Azer

Analyst, TD Cowen

Q

Absolutely. And that's a great opportunity I think to pivot to the US business and some of the commentary that you and Gavin have offered over the last couple of months, that just from a retail perspective, maybe we can start there. You guys noted it's now 40 key retail accounts that you've come to agreements with. That's doubled from the 20 that you guys offered in July.

So, I was hoping to just understand kind of more specifically what those discussions look like. Is it linear square footage? Is it end caps? Is it floor displays? Like how do we think about just the importance of those retail accounts?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

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Yeah. Sure. So, look the number of resets we've seen this fall really does feel unprecedented. And that's not all surprising, obviously given the fundamental changes that we've seen in the marketplace. The big winners here have been us and Yuengling. Now, the fall resets and spring resets are really important to make sure that those share shifts that we're seeing are more sustainable and make them actually structural in nature. And now with the summer selling season behind us, the real impacts from these resets we'll probably see in 2024.

So, some of the – as we said, some of the fall resets have happened. And again, not the norm. From the spring resets, I mean those discussions are taking place right now, and it includes many of the big chains, as you can imagine. So, normally, shelf resets typically happen once a year, but the things like displays can be implemented more often. And that's where we're really also focusing on. So, we're working with our distributors who have done really an amazing job of getting more displays during summer. On our Q2 call we actually shared that we were the number one in retail display dollar gains year-to-date. And that's really important because it's seen as a strong indicator of shelf resets sentiment.

And so again we will continue to focus on things like display, that helps us getting more space in the cold box, that's obviously really important. So, as you see velocities, so maybe that cold box space opens up as well. And as we're looking at shelf space for our own brands, I mean Miller Lite and Coors Light is the priority. We have got strong velocity data that we can show retailers to support this. And so we see opportunities to expand shelf space not just with those brands but with innovations. So, if we look at like our flavor brands and our non-alc, we do think that there's opportunities to continue to gain more shelf space across all areas of our portfolio.

Vivien Azer

Analyst, TD Cowen

Q

That's really helpful. That was going to be my follow-up, whether those shelf space gains have to be tied to Miller Lite, Coors Light and sounds like the answer is no, and it's not even necessarily tied to the core beer exclusively either.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. Yeah. I mean flavor is a big growth area right now. And we've got brands like Simply which is – which again has just been really, really successful, since we've launched it. So, we do see opportunities for flavor space as well.

Vivien Azer

Analyst, TD Cowen

Q

Absolutely. I mean since you mentioned Simply, maybe we can just pivot there for a minute. I think projecting category share in anything that's included in Beyond Beer has proven very, very challenging. But do you think that the rate of category growth and the growth that you guys are seeing with Simply very healthy market share gains, is that in line with your going in expectations heading into summer selling season?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

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Yeah, I mean I would say probably exceeded somewhat especially, we brought in Simply Peach, that certainly helps. I think Simply Spiked Lemonade, got a real point of differentiation, real juice point of differentiation. So, that has – that's certainly helped us and so it's not just Simply Spiked, but also the other brand that we have got from a flavor point of view as well with Coke is Peace Hard Tea. So, now entering that space with more meaningful, bold fruit flavor point of differentiation. So, we feel like brands like that that we've got does really give the consumer a point of differentiation. So, yeah I mean we're very pleased with the performance of Simply in particular.

Vivien Azer

Analyst, TD Cowen

Q

And just to follow-up on that, it just feels to me like the approach is far more restrained in terms of SKU proliferation. So, can you help us think about kind of the working capital implications of really just focusing on for the time being anyway, like a lemonade and a peach and Simply whereas for Topo Chico or for your own Vizzy brand, it felt like the hard seltzer category just required so much complexity and so many SKUs. So, do you think that kind of that – that intentionality in terms of flavor, proliferation can sustain in the other FMB category?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. I mean look at all of the sort of seltzers and everything as total flavor. And we are a lot more disciplined in terms of SKUs and that. So, our philosophy is one SKU in, one SKU out. But we do need to also make sure that we keep up with what the consumer is looking for in terms of flavor. So, you will see maybe different flavors coming in and that kind of thing. But we are really being disciplined in terms of SKU in terms of making sure that we're not expanding SKUs. We – it's more of us sort of – if it's a seasonal we'll make sure that we swap out the seasonals. If it's a flavor that's working. As I say, Peaches has started off really, really well. It may be something that we sort of innovate within that peach flavor, but yeah we want to make sure that – that we keep our SKUs to a level that we can, both us and our retailers, can manage as well as our distributors I suppose.

Vivien Azer

Analyst, TD Cowen

Q

Yeah, absolutely. Thank you for that. That's super helpful. Maybe just pivoting back to the broader US strategy and the opportunity to drive market share. So, across the portfolio, you guys earmarked an incremental \$100 million in investment spending for the back half of the year, which seems prudent given the meaningful share gains that you guys have experienced over the last 5 months. So, I was just hoping to get a little bit of perspective on kind of how you're thinking about consumer targeting against the \$100 million, we pay a lot of attention to underlying both category demographics, and then we do our own proprietary survey work around brand demographics. So, how are you guys thinking about driving more targeted consumer engagement across those two key brands?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So, look, we've done a lot of work around marketing and targeted marketing over the last couple of years, really based on our like return of marketing models. And we have when it comes to sort of our core brands like Miller Lite and Coors Light, as I said earlier, it's not just a result of this year, but building our brands deliberately over the past several years actually as part of our revitalization plan. So, just a quick point. I mean we have seen the incredible growth of our premium lights brands in the US. In fact, Coors Light and Miller Lite are growing volume by double digits. And as of today, both Coors Light and Miller Lite together are 50% bigger than Bud Light, which wasn't the case last year.

So, the growth is driven by a number of factors and really we're looking at focusing a lot more on retaining buyers. And in Coors Light what we are seeing is, is the positive gains are being driven mainly by retaining buyers who are also purchasing more, Miller Lite we are seeing positive gains driven by both switching and also retaining buyers that are buying more. So, really focused on retaining buyers, really focused on those loyal Miller Lite, Coors Light drinkers that have been there for a long time. Now, look, we have always – we always planned to increase our marketing pressure in 2023. And the majority of that was going to go behind those big brands. And a lot of it was already planned. But some of it is going to be incremental. And really it's looking at those share growth from new consumers. We are seeing it across all of our US geographies, across all of our channels. And we are going to put a lot more focus also on like convenience store, for example, we really under-indexed and so we are really targeting to both existing as well as retaining those new consumers. And then also looking at channel, we haven't been as successful like convenience stores.

Vivien Azer

Analyst, TD Cowen

Q

That's really helpful, as you think about the evolving marketing messaging because you are right. Right. I mean Michelle St. Jacques has been working on brand revitalization and brand repositioning with some very clever creative over a number of years now since she assumed the role. So, maybe can we zoom out and just talk a little bit about the underlying demographics for Coors Light and Miller Lite and what you aim to achieve in terms of broadening the reach of those brands?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So again I mean we – Michelle has always been quite vocal on we need to move at the speed of culture, but obviously recognizing that we have got loyal consumers that have been drinking our brands for many years. And so – we're very aware that we need to sort of make sure that we send messaging or we have the right messages for all of those consumers. And, yeah, Michelle, she keeps the brand relevant. I think our communication is very relevant, but also making sure that we don't lose what those brands stand for. And I think again Miller Lite and Coors Light the messaging around those brands are very strong and it's been consistent, and Coors Light, it's made to chill, Miller Lite it's about the great taste. And so you'll see some of our new campaigns really stick to those messages, but have got like a little bit of a new sort of slant to them, but the key messages are going to stay the same.

Vivien Azer

Analyst, TD Cowen

Q

Understood. But clearly the brands are going to be a lot more visible given that that planned and that incremental spend. And then today's announcement that you guys are going to be advertising Coors Light for the Super Bowl.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah.

Vivien Azer

Analyst, TD Cowen

Q

Yeah. Well, the surprise Blue Moon ad I think caught a lot of consumers off guard. I remember watching the Super Bowl and being on Twitter and seeing your ad shoot right to the top of Twitter in terms of the conversation. And you guys got very good recognition for some of the advertising periodicals as well.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Right.

Vivien Azer

Analyst, TD Cowen

Q

As you think about leaning into NFL more and then you guys have also announced some key athlete sponsorships as well, just how are you thinking about just kind of prioritizing that spend national versus something that's a little bit more targeted? Because I think you guys were quick to remind all of us back in 2022, heading into the 2023 Super Bowl, that Super Bowl advertising wasn't necessarily new for your brand equities. It just wasn't national.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Right, yeah. So look, we're really excited, I mean, it's the biggest sporting stage is Super Bowl and so we're very excited to come back next year with a national campaign really and we've announced that it's going to be Coors Light is the brand that we are going to bring to the Super Bowl. But we really look – we do look at national marketing. We look at local marketing, and we don't want to change the core message, but there might be slight tweaks, depending on the market that we are going in locally, if it's fairs and festivals or whatever, that might be have a little bit of a tweak versus the national marketing.

But I mean I think the big thing is that our message is consistent and that we are appealing to again the existing consumers as well as those that we want to retain and the new consumers. So, Michelle is very focused on that. And looking at how we spend our dollars and making sure that we provide the highest return on our marketing dollars. We have been waking on that for years. So, we've got a lot of marketing effectiveness tools that we use. And, Michelle sits down with her team and if something is not working, we pull it immediately. And I think we've – we've actually learned that we haven't had to pull too much because the messaging has been consistent and just maybe modernized or tweaked a little bit. So, yeah, we are very disciplined in terms of where we spend our dollars and make sure that we are getting the highest return.

Vivien Azer

Analyst, TD Cowen

Q

Oh, for sure. Tracey, I feel like you and I, well we've known each other for more than a decade, but we have been talking about ROMI that entire time because you've brought so much financial discipline to the spend. Since you mentioned experiential we were talking to the CEO and CFO of Campari, today obviously different category, different model. They're very heavily SKU'ed to experiential. How does that rank in terms of the productivity for you guys? Just given the size of your brands, is it less productive, national or larger scale makes more sense?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

No. I mean, I think experiential, again it depends. If I can use an example, I mean we have been probably given the best opportunity around experiential marketing this year. And it's about – when people decided that they were going to choose another light beer, the fact that we were relevant, the fact that we got really strong, healthy brands in Coors Light and Miller Lite meant that they actually chose us. And so that gave us an opportunity to actually interact directly with those consumers. It gave us an opportunity to make sure that the consumers were tasting our beers and seeing that they were like a really good alternative to maybe what they were drinking before. And so certainly experiential.

A lot of the stuff that we do on digital, directly interacting with the consumer, that's really important. And again, it can be on a national scale depending on what the message is and the consumer – or it can be local in terms of a local pub, for example, where we want people to taste things and try things and taste things. So, yeah, it's kind of depending on the message and the brand, experiential is really important.

Vivien Azer

Analyst, TD Cowen

Q

Understood. Thank you for that. Maybe we could move beyond Miller Lite and Coors Light because you guys have a comprehensive portfolio that spans all the important price tiers and segments within US beer. So, maybe we can just pivot to the opportunity for imports. And can you just remind us of your strategy for Peroni, just given how fast growing the import category has been?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So we are obviously very excited about Peroni. We love Peroni. It brings that real, authentic, authentic Italian heritage to the brand. And in Q2 through July, our Peroni volumes are up double digits with the campaigns that we have got in place. And it's significantly outperforming a key competing European import that has been struggling with [indiscernible] (00:23:57)

So in the first quarter, piggybacking on the strong performance of the Peroni brand, we launched Peroni 0.0%, it's a non-alc – it's a relatively small segment, non-alc in the US, but it's rapidly growing. I mean it's up more than 30% year-to-date. So, important for us to play in that space and play with a brand like Peroni, which is in that above premium space, where it looks like a lot of the growth in the non-alc is in that above premium space. So, we've got a great offering with Peroni 0.0%. And the liquid is just amazing. Whenever we take people to sample this, I mean it tastes just like Peroni regular, so the liquid is really good.

And then just last week at our distributor conference, we announced a new premium partnership with Formula One Scuderia Ferrari team. So, we are really excited with that about that really well aligning the brand's Italian heritage. Formula One's got a huge following, I believe about 800 million fans globally and growing, and growing with younger LDA consumers and the more affluent consumers.

So yeah, we love Peroni. We got great plans for it. We're very excited about it.

Vivien Azer

Analyst, TD Cowen

Q

Well, I certainly have seen on social media that the traffic in Vegas is a mess ahead of the November F1 race. So, I think your timing is good from a visibility standpoint.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Absolutely.

Vivien Azer

Analyst, TD Cowen

Q

I'm meant to go to the NBWA conference in Vegas in October and I'm really bracing myself for getting around [indiscernible] (00:25:37)

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

I have heard that. I have heard that they've closed off the streets already and yeah.

Vivien Azer

Analyst, TD Cowen

Q

No, you're right. I mean it got a lot of buzz. The Netflix show has certainly helped. That seems like a very powerful partnership to be sure. But pivoting to the other end of the spectrum, you and Gavin, I think, have been pretty consistently in noting that you're not seeing material signs of downtrading. And I'm just having a hard time reconciling the sentiment indicators that we're seeing from the NBWA around the economy segment, certainly relative to the trends we've seen on a multiyear basis.

So, I was wondering if you could just offer any perspective on whether that's an actual disconnect or are we misreading the data?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

No, look, I mean, look, we continue to see premiumization but at a lower rate than what we had been seeing in the last couple of years. And yes, look, economy is doing well, but there's a lot of noise there given share shifts that we've seen across the markets, including Busch Light trends. But our economy portfolio has been performing well. In fact in our latest 13 [week period], our economy portfolio is growing the most share of the segments – of the economy segment of all the brewers. And our key economy brands like Keystone, Miller High Life, Hamm's, Icehouse, they're all growing share of industry in the latest 13 [week period] and year-to-date.

So, yes, the economy, definitely picking up and doing well. And we'll continue to monitor the trends. But remember, Vivien, we've always said that all segments matter. And so it was really important for us to have strong brands in the economy segments as well. And so we're happy to have brands that play with the really big brands like Keystone and Miller High Life.

Vivien Azer

Analyst, TD Cowen

Q

That's absolutely right. And thank you for that. It occurs to me that in our audience, there might be investors that are a little bit newer to the story that were attracted to some of the brand dynamics that we've seen and the market share dynamics that we've seen in 2023. Maybe it might be helpful, Tracey, just to revisit what happened in 2021 in terms of the change in your resource allocation around economy during the height of supply constraints during the pandemic.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yes, sure. So, look, I mean we come into every year bracing ourselves for something that's going to surprise us. And generally, it's sort of on the negative side. And back in 2021, we had those winter storms in Texas. We had a cyber incident, obviously, COVID and supply chain played into that.

And so we made a decision – we had always been speaking about rationalizing our SKUs, but all of those things together, we actually brought forward that decision. And we actually – we took out a number of economy SKUs. And that helped us not just be able to deliver our normal brands like Coors Light and Miller Lite that, obviously, were healthy and we wanted to make sure that we had them, especially during COVID, on the shelf, because that's where consumers were – they were moving towards the big trusted brands. And so, yeah, we took that decision. We got a lot of – we got rid of a lot of SKUs, that weren't performing maybe like the rest of our portfolio. And that saw us through 2021, saw us through 2022.

Our breweries are operating much more efficiently and effectively because there's not all those changeovers and things like that that happened with at this tail end of economy brands. So, yeah we've made that decision and certainly looking back on hindsight it's wonderful, it was the right decision at the right time because as we came into this year with having needing more capacity for Miller Lite and Coors Light, we had that. And so we're able to supply the market with this unprecedented demand on those brands.

Vivien Azer

Analyst, TD Cowen

Q

Thank you for that perspective. That's helpful. Maybe moving more towards the Beyond Beer. We have talked about the other FMBs. We haven't really touched on spirits or energy drinks, so maybe we can talk about spirits for a second. And you've built out some nice exposure to the whiskey category in America, albeit on a small scale. So, how do you think about the need for additional scale to effectively compete in spirits?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah, look, I mean spirits have – has been experiencing growth, as consumers shift their alcohol consumption and whiskey has got a long history with alcohol beverages and particularly the higher end whiskey has seen strong growth. As – the same way that we've seen in beer, we have seen the consumer premiumize in the whiskey area. So, to capitalize on the consumer trends, we launched Five Trail, which was our first whiskey brand, in-house, organic. And then we launched Barmen 1873 Bourbon. And then just recently we welcomed Blue Run into our portfolio and under the Coors Spirits Company, and we are really excited about that. I mean, Blue Moon is a – sorry Blue Moon as well, but Blue Run whiskey is it's just a beautiful brand, plays in that sort of super premium. So, our focus going forward is really building out our spirits capabilities and executing the brands that we currently have in the marketplace. And then we will continue to monitor it and any future opportunities we'll assess them based on our broader enterprise and portfolio strategy. But really excited to now be playing in the whiskey space.

Vivien Azer

Analyst, TD Cowen

Q

Yeah. I mean it seems like a very smart and logical extension. We've certainly been constructive on American whiskey for over a decade, but now actually what you are seeing is that while the like the luxury end of tequila is depremiumizing, you're just not seeing that in Bourbon. The premiumization continues to be incredibly robust. And for those of you who haven't looked at the Blue Run data, what I thought was really interesting, Tracey, is that it seems like they do like quarterly releases to drive a lot of excitement around the brand. Is that right?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

They do. And some of these brands are at really high price points. So, they do these huge limited releases at really high price point and they sell out in seconds, like not even like minutes or days. I mean its seconds. And so, as I said, it's just a beautiful brand. It's a beautiful bottle. It's a beautiful liquid. We're very excited about it.

Vivien Azer

Analyst, TD Cowen

Q

Absolutely. And just rounding out the US, you guys recently announced that you were increasing your investment in ZOA. Obviously, the energy drink category has been incredibly competitive. So, how are you guys thinking about driving or helping ZOA drive growth in terms of velocity and distribution?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah, again, I mean we think ZOA is a great brand. So, increasing our investment in ZOA and for those who don't know that's our partnership with Dwayne The Rock Johnson. It's another way to continue to grow our presence in the Beyond the Beer aisle, which was part of our revitalization strategy as well.

So, the investment in ZOA allows us to double the planned media budget for the coming year and also helps us and helps us the ZOA company to continue to grow both the sales and the distribution footprints. And it is something that I think is needed on the brand. And then through this increased investment, in addition to being able to spend more, invest more, we also have a presence on ZOA's board of directors. So we'll be able to influence some of the strategy around that as well.

But if we look at ZOA, I mean since we launched ZOA in 2021, it's now available in 45,000 retailers across the US and in Canada. And we achieved \$100 million in sales in the first two years. So, as you said, it's a growing category. We see continued growth in that way. ZOA at the moment, it's a top 15 energy drink according to Circana. It's got all natural ingredients, it's got zero sugar. So, it plays well into that better-for-you category. And that better-for-you category has been growing like 100% year-to-date. So as also, we don't see any signs of it slowing. So, we're really excited about that, that opportunity with ZOA.

But just another point as well, just in terms of the investment, Vivien, it is a great example – and this is coming from the finance person – it's a great example of how we approach investments in our business. It's a very capital prudent way. We take a stake, we see if this is going to be something and then it allows us to increase our investment when the opportunity warrants it. So, we've done that with ZOA and we really are excited about next year and the plans that we've got for it next year.

Vivien Azer

Analyst, TD Cowen

Q

Absolutely. Thank you for that. And within the answer, you mentioned Canada, so why don't we move to Canada as we've got about 10 minutes left. And so one of the things that I think has been really interesting, Tracey, is how you're able to lift and shift innovation out of the US into the Canadian marketplace. But even perhaps more interesting is that kind of the outcomes can look very, very different. I think hard seltzer is a great example of that. So, can you just provide an update on hard seltzer in Canada?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So, look, like in the US, the Canadian seltzer segment's also experiencing overall declines. It's down about 8% year-over-year. But having said that, Molson Coors Canada is staying competitive in the space. It's gaining share with Vizzy, with Coors Seltzer and with Topo Chico. So, just as a reminder, we have Coors Seltzer in Canada, which we don't have in the US. So, three really strong brands gaining share. Our Canadian seltzer shares reached a record high of nearly 17 share points, and we are the only major brewer growing share in Canada with seltzer.

So, as we look at taking innovations across geographies, I mean we've done that in Canada. We considered it in the context of our broader enterprise strategy. And we're always looking for opportunities for our brands into new markets. So, again, we did that in Canada. We've also launched Simply in Canada as well, so, adding to that flavor profile. And then in Europe, I've spoken about Madrí. I mean we've got a huge winner with about Madrí, and we could consider expanding that brand into other markets.

And, even though we've got this large footprint in the US, the global presence that we have actually gives us opportunities to move some of these brands, not just in the Americas, but over into Europe and the UK as well.

Vivien Azer

Analyst, TD Cowen

Q

And thinking about Europe and the UK, just in terms of kind of the economic backdrop, it seems like inflation continues to run well ahead of what we're seeing in the United States. And obviously energy inflation is a bigger headwind as we think about that too. So, just an update on how you're thinking about the macro backdrop in Europe.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So, look I mean the UK has been pretty resilient and the UK consumer, we haven't seen any slowdown. The on-premises is back to pre-COVID, et cetera. So, and UK is a different market to what we're seeing in Central and Eastern Europe. And Central and Eastern Europe is challenged by those inflationary pressures that you mentioned.

And while the inflation rates are lowering there, we're still seeing double digits in some of the markets. And it really put pressure on the consumer's disposable income, which resulted in a more sort of promotional retail environment. So, we continue to monitor the promotional activity there. We maintain the rights commercial balance of promotions and below the line activation, just to make sure that we are physically available for our priority brands. But it's challenged there for sure.

So we're going to continue to invest in our strategic priorities in those markets. We've got strong commercial support for some of our key brands there. So I mentioned earlier Ožujsko in Croatia, very big brand, it's actually our biggest core brand in that region, got a big market share. And so we'll continue to put pressure behind that brand.

And then on the above premium side, we've got Staropramen. We launched a new campaign a little while ago with Orlando Bloom. And that brand is not just in the Czech Republic, we've taken it across quite a few of our geographies and it plays in that above-premium space. So, we're monitoring it carefully. We're very cautious about the consumer there, but making sure again that we've got all the right brands at the right price point and that we can cater to the majority of the consumers.

Vivien Azer

Analyst, TD Cowen

Q

Yeah, that makes good sense. I was in Dubrovnik in August and your brand is very visible and the seaside is a great beer drinking occasion.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Absolutely. Good.

Vivien Azer

Analyst, TD Cowen

Q

So, maybe in the last couple of minutes that we have, I'd love to touch on capital allocation. And if we have a minute, we can double back to commodities, since we were talking inflation. But I mean on the capital allocation front, maintaining a sustainable dividend has been a key priority as you work to delever the balance sheet, can you just remind us of your leverage targets?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So, our leverage ratio target is 2.5 times, but we set that target back in the beginning of the year. But with the strength of our EBITDA and our continued progress in reducing our net debt so far this year, we actually hit that target as, as at the end of June. So, what that has done is provided us more optionality as we consider how do we balance the allocation of capital now, more evenly across our existing priorities.

And those priorities just as a reminder, number one is to invest in our business to drive top line growth and efficiencies and now some of that could include like bolt-on acquisitions. But again, it's that string of pearls approach. We are not going to go and buy billions of dollars. We're going to make sure that it's a string of pearls approach that fits a geography or a whitespace or capability that we can't do ourselves. So, that's investing in our business.

The second priority is around reducing net debt, obviously, wanting to maintain our investment grade but also improve our investment grade rating. And so I think we have done a really good job as we spoke about the leverage ratio around our debt. And then the third priority is returning cash to shareholders. So, when we put the dividend in place and we reinstated it, we really wanted to make sure that we can sustainably grow the dividend.

Now, we've raised it each year for the last two years. So, that's one part of the dividend. And then also we've got a small share repurchase program mainly an anti-dilution program around share buybacks. So, overall we look at all our capital allocation decisions. We have got models that help us determine what gives the greatest potential returns to shareholders. And we make our decisions based on that. And you mentioned at the Strategy Day on October the 3rd. And capital allocation is always a question, and Vivien, I would have been disappointed if you didn't ask it. But yeah we plan on giving more color around capital allocation at that Strategy Day.

Vivien Azer

Analyst, TD Cowen

Q

Absolutely. And I do have time to squeeze in one more. Commodities have been incredibly topical. So, can you just remind us how we should think about the commodity backdrop as we head into the back half of 2023, Tracey?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So, look I mean, we hedge all the commodities that you can hedge, now there are obviously some commodities that you can't. So, for example, freight, which impacted us, all of us during the COVID time. And but there we have contracts, fixed price contracts and sort of longer term contracts with like freight carriers, et cetera. And but there are things that you can't hedge. But in terms of commodities, we hedge everything that we can. We don't have a programmatic approach to hedging our commodities. We actually it's a lot more opportunistic. We operate within guardrails, set minimum and maximum guardrails. And then also depending on which commodity we're hedging, that may determine if it's a sort of shorter term or a longer term commodity. So, we can hedge three plus years and or we can hedge 12 months. It just depends on the commodity, but really what we have been trying to do is make sure that we take a lot of the volatility out of the COGS and not try and beat the markets. And I think if you look at our COGS, you'll see I think we have been fairly successful with that.

Vivien Azer

Analyst, TD Cowen

Absolutely. Well, that's a great note to end on. Tracey, thank you so much for your time and your insights and I look forward to seeing you in October in New York.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you. Appreciate you having us, Vivien.

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