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# Molson Coors Beverage Co. (TAP)

## Barclays Global Consumer Staples Conference


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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

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

# MANAGEMENT DISCUSSION SECTION

## Lauren R. Lieberman

*Analyst, Barclays Capital, Inc.*

Okay. We're going to get started. And we've got Molson Coors Beverage Company. I'm with Gavin Hattersley, President and CEO; and Tracey Joubert, the company's CFO. So, thank you, both, for joining us here in Boston.

Hopefully, we won't have any fire alarms. There was a false alarm last year. So, we'll give the hotel to keep it together this year.


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# QUESTION AND ANSWER SECTION

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

So, I'd like to just kind of jump right in. I think as a company, a lot of very positive developments. So, I guess, just to start, it would be helpful to just hear your perspective of the health of the US beer category overall. Industry-wide shipments have been more challenging year-to-date, and this kind of even the last month or two, maybe [indiscernible] (00:00:49) a bit further versus the historical cadence for kind of like a plus 1% to minus 1% type range. So, I guess, what would you say maybe the primary drivers of the slower performance? And how should we think about medium-term shipment growth for the industry?

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

A

Thanks, Lauren, and thanks for having us. Good to be here. Yes, certainly, if you look at the overall beer industry, it is operating outside of a sort of historic minus 1%, plus 1% range. Although in the last 13 weeks, in the Circana read it has improved a little bit to about – I think it was down 1.7%, so a little bit, outside of that range. If you stand back and you look at the industry had a tough start to the year with the West Coast in particular had some really challenging weather conditions. That's a big beer consumption market. And so, that was not helpful at all.

And then, as helpful as seltzers was a few years ago to the overall beer category growth, still there's been a drag on the overall beer industry this year. And so, certainly, I would point to those two factors. From an overall consumer point of view, we have seen a somewhat of a slowdown in premiumization, but still premiumizing, and that's mostly driven by the seltzer phenomena. I would point to those two factors with a slight improvement in the last 13 weeks.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. Okay. And then, if we focus in on premium light, specifically, just any thoughts on kind of sort of softer volume trends there, again, category-wise and kind of consumer behavior shifts, if any?

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

A

Well, putting aside the seismic shifts that we've seen...

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

We'll get there.

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

A

...at the premium light – I'm sure, we'll get there at some point.

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

A


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If you look at the – we look at it from an overall beer category point of view. Our premium lights, Coors Light, Miller Lite, are actually growing overall category share, which is really important from our point of view.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay, okay. So, on the dramatic changes in market share the past few months, so my understanding is that the 2023 outlook – your 2023 outlook reflects the assumption that these current market share levels do hold. So, I guess, first, let's confirm that is an appropriate interpretation of the outlook. But then, secondly, why do you think the market share shift will prove sustainable? Kind of what are you doing to retain this new higher level for your brand?

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

A

So, if you look at it from that point of view, it's been five months now, right? And whichever way you look at it, if you look at on a rolling 13 weeks, every single week, the numbers are the same. The trend has stuck. It's sticky. It's not changing. You might see a little bump either way in a one week number, and there's always historical reasons for that. When you look at the rolling 13-week, the trend is stuck, and there is no change whatsoever. It's certainly not what you're seeing. And it's certainly not what you're seeing in Circana and IRI.

Now, what are we doing to make sure we keep that? Well, partly the additional marketing spend that we're putting behind our brands, some of that was planned. We were always going to do that. We said at the beginning of the year that we were always going to do some marketing spend. But we have increased our marketing spend in surgical ways. We're making sure that from a retailer point of view, they understand, and they do, what's happening in the marketplace. They understand very well. And the reset process reflects that. I said on the earnings call that we had 20 retailers that had already made shifts in the fall, which is somewhat unprecedented. And I also said that every week that I spoke to our commercial folk, more people got on board with that. And since the earnings call, we've more than doubled that. So we're...

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Since the earnings call?

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

A

Since the earnings call, we're now closer to 40 retailers that have made that full reset. So, somewhat unprecedented, but it's reflecting what's happening out in the marketplace. Of course, we'll benefit a little bit from that in this year, but the real benefit of that shelf reset is next year, because that'll make that – that'll help us make sure that what you see in the store and what the consumer is able to shop will reflect momentum. And we'll make sure that we retain the volume we've got.

The other area of focus for us is in the on-premise. We talked about 12,000 tap handle increase in the second quarter, and brands are built and brand loyalty is also built in the on-premise. So, it's a really important move for us as well. So, we're doing a number of things to make sure that we retain this market share that we've got. I know there was – there's some skepticism. And you were not one of them, because I...

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q


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Believe it or not.

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

A

I read what you wrote, but there was some skepticism as why you're spending all this extra marketing, but in the same breath of the very same folk that said why are you spending in the marketing is also saying that we're not going to retain the market share. So, we want to retain the market share and we are going to do what we need to do to make sure that we have the best chance of doing that.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Great. And if I just stick with marketing for a moment, beyond the core premium light brands, where are some of the higher mark – that incremental marketing spend being allocated for the second half?

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

A

You're right. It's broader than just Miller Lite and Coors Light. We're putting more money behind Coors Light up in Canada. Canada recently became the number two brand in Canada, surpassing Bud Light. It's not that far away from the biggest brand either, Budweiser, Bud Red is the biggest brand in Canada. So, we're probably – we're going to fuel that momentum in Canada.

Madri, which is our most successful innovation we've had in Europe. It's certainly one of the most successful innovations that we've had in the company as a whole. We're going to fuel that momentum. That brand is on fire. And it has only got 40%-ish awareness in the UK. So, we're putting more money behind that brand. We're putting money behind Ozusko in Croatia, for example, which recently went past 50% market share.

In the US, of course, we're putting money behind Miller Lite and Coors Light, but we're also putting an increased investment behind a brand like Simply Spiked, which has continued its momentum from its launch year of last year. We will invest more behind Blue Moon. We've got the Blue Moon non-alc version, which is launching in the second half, and we'll invest behind that. So, broadly bigger than just Miller Lite and Coors Light, but given that they're the biggest brands in our portfolio, they will get the lion's share of it.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. Sorry, I should have put on my glasses, [indiscernible] (00:08:25) when I've got here. Okay. So, also in terms of that incremental reinvestment that's now reflected in the guidance, I mean, how different is it versus what was planned at the start of the year? I know you're not going to give me an actual number, but just thinking about the opportunity to say there are – every company, every brand manager has a list of the wish list of things they want to support. How much of where your incremental spend is going versus day one plans, those sorts of things? Are there products that are hitting the – even pulled forward from 2024, because it is – the flexibility in the P&L is considerable to say the least?

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

A

Why don't you take that?


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

A

Yeah. Look, I mean we – if there's good ideas, we're going to invest beyond those. And we didn't say no to good ideas. So, when our marketing team comes to us with something like an innovation or they want to put a little bit more money to fuel something that's doing really well, we'll do that. But as Gavin said, I mean, we are planning to spend more this year. The $100 million is not sort of total – it's not all incremental. A large part of it is what was planned. Just in terms of the sort of efficiency of marketing spend, it's not always also about the quantity, but our marketing team has done an amazing job and to be more efficient, running all of the marketing spend through our investment models, making sure we're getting the highest return. So, that plays into a big part of it as well. So, I can't tell you exactly what's incremental, but the $100 million is not all incremental.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. And how do you think about balancing reinvestment versus flowing through to the bottom line? And again, given the view that the share shifts are permanent?

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

A

Again, I mean, every investment idea that's brought to us, we analyze it, and if it's something that we think is going to drive value for the company, we'll really be behind it. But we want to make sure that we're investing in the business to drive that sustainable long-term, top and bottom line growth. So that's how we look at it.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. The strength in Miller Lite and Coors Light, obviously a big positive, but how does it impact your premiumization goal?

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

A

Yeah. I mean, above premiumization is the second pillar of our overall strategy that we launched a few years ago. And the focus on that hasn't changed. And we've got some really great stories to tell there. I mentioned one of them, which is Madri, and Simply Spiked would be another one. And most of the innovation which we are doing and have planned to do, some of which we've announced, some of which we haven't, is focused on the above premium higher margin space. So, it remains a strong focus for us. We have a goal out there to improve that to one-third of our NSR portfolio. We've made great strides along that path. It's obviously fantastic that Miller Lite and Coors Light are doing as well as they're doing, but it's not also changing our focus on premiumizing our portfolio.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. And you mentioned Blue Moon. Just would love to get an update on the latest Blue Moon campaign. I know it was a focus area for 2023, and then some other things kind of stole the spotlight. So, yeah, Blue Moon still looked a little bit challenged in some of the track channel data, so would love to just hear a bit about the development there.


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

A

Yes, it is. I mean, Blue Moon has – just like craft as a whole, as a segment that has suffered from some delays, and Blue Moon is obviously part of that segment. But sustaining that, it's still the largest craft brand in the country, it's twice as big as its nearest craft competitor. Some of the challenges which I talked about earlier from an industry point of view impacted Blue Moon a little disproportionately, because it's got quite a big market share in the West Coast. That's its highest volume state. And so, challenges in California hurt Blue Moon disproportionately.

Having said all that, we recognize we've got more to do on Blue Moon. And we have our distributor convention next week. We'll be unveiling some new plans for them from an overall brand point of view. We have already announced the Blue Moon non-alc version, which I think our brew masters have done an amazing job of matching the taste of Blue Moon non-alc with the alcohol version. So that we're expecting to give a halo effect to the overall portfolio. So, we're not blind to the fact that we've got work to do with Blue Moon. Some of it you'll see coming up in the next three months or so. But the bigger impact for us from an overall campaign brand point of view will be for next year and we'll be unveiling those plans next week.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. On the non-alcoholic, curious, just your thoughts on, I guess, launching a non-alcoholic brand and underneath an existing halo versus kind of standalone discreet, non-alcoholic brands and just sort of the interplay of those two things. Do you think it's important to have something that's simply non-alc versus just the knock-on brand expansion, I guess?

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

A

Yeah, we've tested this one every which way, as you can imagine, right, as to what we think will work best from our portfolio. And Blue Moon non-alc rose to the top. I mean, it's a very well-known brand. It's got great quality credentials and it's got a huge consumer following. And coming up with the non-alcohol version of that, that meets the expectation that you would have from Blue Moon from a craft and taste point of view. It rose to the top of the pile of a number of different ideas. So, we're pretty excited about it.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. Consumers of a certain age are very appreciative that the company's launched non-alcoholic. We'll save that for [indiscernible] (00:14:49). Let me switch a bit and just ask how you're feeling about kind of current capacity and brewery network and the ability to keep up with demand. I mean, anything I hear from my industry contacts has been gold stars all around the facility to keep up. But I'd just love some commentary on that.

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

A

Yeah, I mean, I believe supply chain has done an amazing job through summer. Part of that was because we did build up inventories coming out of Q4 of last year, and we made sure that we kept them as high as we could in Q1. So, we asked our network to take their inventories up, not because we expected this, right? Of course, not, but we were actually expecting something negative to happen, because it happens every year for the last three years. And so when this positive thing landed, we were in a great place with healthy inventories, because you


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can't just turn on a dime to make more beer. So, that gave us the breathing room for a couple of weeks to ramp our breweries up. And they've done an amazing job this summer.

I talked about it in the second quarter call, and we're almost – we're through Labor Day now, and our breweries kept up that great work. I mean, they've done – and actually over-delivered what we were hoping for from a shipment point of view. They performed really well. It's going to give us an opportunity in the fourth quarter to perhaps do something we haven't been able to do in the – for a while. Our workforce has really risen to the challenge over holidays, July 4, Memorial Day. And it might give us an opportunity over Thanksgiving and Christmas to give our employees a lot of time off. Frankly, the amazing performance that they've achieved through summer. So, capacity is great. And of course, there are going to be some out-of-stocks in the – somewhere in, with some brand or some pack or some SKU.

But as you rightly point out, you've not heard – it hasn't been in the trade. There hasn't been a lot of chatter about it, and that's been our experience. But we've had some distributors which have had seismic shifts in volume trends, growth of 50%. Their warehouses aren't big enough and it's certainly, you would see some level of out of stock there. But the performance has been amazing.

The – we've got Pabst coming out, a big chunk of Pabst comes out in the fourth quarter. That'll give us – it has less of an impact for us from a capacity point of view in the shorter quarters, but it'll certainly help us next year, once we get into summer and that volume is out of our system. We'll be able to meet the demands that we've experienced with our joint venture partner, Yuengling, in the expansion markets. So, we're feeling really good about our capacity.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*
Q

Great. Just one question. Are there any operational risks to running the network tighter for longer than usual? Like is they're pushing maintenance and things like that?

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

No, I mean, look, that is really important to us to make sure that we maintain our breweries and some of the capital spend that we put in to make our breweries more efficient, to run better, we expect that this year we'll continue to spend. But no, there's nothing that I would point to that could be out of the ordinary.

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

We always do, our maintenance in the shoulder quarters anyway, right. So, we always do it in Q4 and Q1, and we'll do it again this year.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*
Q

Okay. And then just you typically plan to ship to consumption each year. Is that what you're expecting to do this year or is it a ship ahead to also rebuild?

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


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Yeah. Now the aspiration is to ship to consumption every year. This year, what we've been really focused on is meeting demand. And so, as Gavin mentioned, our team has done a magnificent job, keeping up with the demand as you see sort of over shipping to what we had planned. So, this gives us a bit of an opportunity, as Gavin mentioned, to maybe give employees' time to enjoy the holidays this year. And then the other thing to mention, as Gavin said, Pabst comes out, big part of Pabst comes in this quarter. So, at the moment, what we focus on just is meeting demand. So...

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay, great. And then, I know compared to like the second quarter that usually runs full out anyway, our math has been that you'd see a bigger benefit from positive operating leverage in the shoulder months or quarters. Is that fair, because I think there were some of the investment community maybe really struggled on how to model all of this and thought it was more of a – the operating leverage is more inherent later?

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

A

Yeah. Look, I mean, obviously it's more volume. We [indiscernible] (00:19:55) the more leverage there is, so we can spread those fixed costs over more volume. Now, the composition of that volume, does make a difference. We see that on the enterprise basis, our fixed cost is around 20% of total COGS and depending on the composition of that volume. And so, as different geographies have a different percentage costs, we've got a higher volume in EMEA APAC relative to the prior year that may impact that. But you're thinking of it correctly, I mean. The more we use, the better the leverage will be.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

And the change in that year-over-year, because they're typically pretty close to...

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

A

Of course. Yeah, the volume change year-over-year makes the impact.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay, great. And then just more broadly, the rate of inflation is expected to moderate in the second half. So, can you just walk us through the key drivers for that easing in the back half of the year?

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

A

Yes. So we've got a good line of sight right now to our COGS. I mean, we got a good idea of what commodities are doing. We've obviously got our hedging program, that gives us a good line of sight. We know what our contractual quantities also. We do have a lot of contracts that limit our costs. And then, also our cost savings programs. So yeah, we can see the inflation moderating now, taken it does differ depending on the geography. So, EMEA&APAC has had a much bigger inflation impact than North America, for example. We expect to continue to see in EMEA&APAC still having high inflation, but certainly North America we're starting to see that inflation come down.


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**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Let's move to pricing. So, I guess first is still expecting to take a fall increase. What are you seeing in terms of the promotional environment and the category? And then just almost as an overlay to it, I mean, one of the things I've been thinking a lot about is, how much has changed in the category in terms of category leadership, right? And ABI's worked historically on pricing in the industry and how that may or may not change the cadence of the magnitude, frankly, of pricing that comes through.

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

A

Yeah. We will be taking a price increase in the fall. It will be, as we always do, right, brand by brand, market by market, SKU by SKUs. So, we won't take a price increase in every market. We won't take on every brand and won't take on every SKU, right and we'll be surgical about it. I do expect that the comments that I've made in the past about reverting back to the historical sort of average of one to two is the most likely outcome for next year.

In terms of the overall category, we've long punched above our weight from an overall category captainship point of view and it's a competitive advantage for us. And certainly, that's helping us now as we work with retailers on shelf resets, as we show them the facts and the velocities and what needs to change. And for those changes that have already taken place, frankly, we're the big winner. There are three clear winners of this shelf reset space that we're seeing at the moment is ourselves, Pabst would be up there and Yuengling. Not only in the markets in which we operate within, but in their home markets as a clear winners we're seeing, it's something we're able to seize.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Great. Let's switch back to Europe. So, you've brought up Madri a couple of times – or Madri, I guess I should say, and Foster's in the right place. What is it about that brand that's just such an overwhelming success in the UK?

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

A

That's a great question. I pointed two things, right. It met a consumer need, there was a demand from the consumer for refreshing Mediterranean style lagers. And we've done an acquisition of a Spanish brewery and we launched that brand and we used our strength in the UK to do that. But our strength in the UK is the on-premise. It hurt us obviously during COVID, but we've come out of COVID from an on-premise point of view, capability point of view than we were in the beginning. So, we leverage the strength we had, which is the on-premise and we met a consumer demand that they wanted. And the success of that brand has been astronomical. I mean, it's beyond our wildest expectations. And we think we've got significant upside for the brand given the low awareness that still exists.

But when something is super successful in the on-premise, that's where you build brands, that's where you build consumer loyalty, the demand for it then came in the off-premise where you move into the off premise. I think that we were perhaps anticipating. So, right now, our focus is on the UK and getting the needs and growing the brand in the UK. But it is certainly a brand that we will look to extend beyond the UK either in Europe or where it's just a phenomenal success.


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**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay, great. We do keep hearing about the tough consumer backdrop in Central Europe where you have real exposure. So, what are you doing to kind of keep up consumer engagement in that region in particular, given the challenging macro?

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

A

Yeah. We've long talked about that point as being the most challenged market. It is that we operate in disposable incomes, tough inflations, higher consumer sentiment, given what's going on around them has been tough. So, there's no doubt that that's a more difficult market for us. Inflation was higher with large price increases into the market. We probably won't be more – we won't be putting in those levels of price increases in the markets in the coming year.

And we're investing behind those brands which are working and working well, so Ožujsko Croatia, Staropramen is doing really well with its new campaign. Obviously, Madri is an investment focus for us and then we've recently upped our spend behind Carling and Coors Light in the UK market. But in Central Eastern Europe, more surgical, I would say. Those brands which are working and working well, we're putting a little bit of extra umph behind it.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. Thank you. Let me shift gears to look at beyond beer. You made an interesting spirits acquisition in August, with Blue Run. Along with that announcement, you shared the plans to establish the Coors spirits company so that will have the other brands in it. So, what's the strategy there? It this is something new, so it's a good opportunity to talk a bit about it. And as we think about the opportunity and necessity to scale our business, for it to be something that can move the needle.

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

A

Now, if you remember back when we launched the revitalization plan, we said we wanted to move beyond beer. Whilst core was always going to be our focus and above premium beer was going to be the second focus. Going beyond beer was our third big priority. And we've sort honed in where we want to focus, so certainly the non-off space within energy drink focus particularly and potentially something else and then in the spirits world. So, we launched the Coors Whiskey Company, Five Trail last year or the year before.

We launched Barmen. And we spent a lot of time looking to what brand fit with our overall strategy from a premium point of view, a margin point of view, and just from overall brand point of view and we landed on Blue Run. It's a wonderful brand. We're very excited about it. We're excited about the partners that have come with it. We think there's tremendous upside for that brand. And then, of course, we get economies of scale with what we really had, which was Coors Whiskey Company. So, it's right in line with our strategy and it's right in line with our string-of-pearls M&A approach, which we've talked a lot about as well. Now we think we're good at string-of-pearls approach. I think it's an value for [indiscernible] (00:28:51) going forward and this is an example of that.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Let's talk a little about the market for RTDs. So, there's so many brands out there, right and the consumer has been super experimental. I mean, you can even argue, I know Seltzer's not RTD, but you've kind of seen that


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dynamic evolve experimentation, the big surge, now we're going the other way. This great partnership with Coke, how do you see it all shaking out? Like what's the right business model to participate in this space given there's so much churn, right, there's so much activity?

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

A

Yeah. So, we, for quite a while now, have been looking at this more from an overall flavor point of view. So, not just Seltzers, but also flavored malt beverages because of this churn that has taken place. And so, if you look at total space flavor, I think from an overall growth point of view, it's still growing. Seltzers are down a lot. Some brands within Seltzer are down quite a lot, but then flavored with brands like Simply Spiked are growing very nicely. Some of our competitors like High Noon growing very nicely. So, the overall space is still big. It's still good and it's a place we want to play in.

In terms of our partnership with Coca-Cola, we like it, right. I mean, we've got some great brands from them. We're launching a new brand with them in the fourth quarter. Peace Hard Tea, we only launch that in the Southeast. And so this is a relationship that we think is working really well. And Simply Spiked had a great introduction here, it's growing very nicely. Even on top of some of those really big comps in this year. And we're going to double down on that as we go forward. So, I think there's lots of runway in terms of our relationship with Coke.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Okay. And I guess, just when I think about business model, I guess what I'm also thinking about is because of the churn, thinking about return on investment, right. And that's like picking the winners or how do you – you've got plenty of flexibility in the P&L right now, obviously. But as you think about how much to invest or seed some of these brands or garnering shelf space, I mean, how are the retailers, I guess, more point of view of the distributors dealing with that, working through that, the increased complexity of picking the winners, what scales, what disappears? It's a very different approach than what would be core company historically with Miller Lite, Coors Light, big core stable brands. So, what is that adaptation that needed to make and how you operate [indiscernible] (00:31:39)?

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

A

Our distributors are really good at operating with, actually a lot of complexity but most of them deal with a ton of brands and a ton of SKUs and they're really, really good at it. It's one of the advantages one of our particular network is they're used to dealing with that scale and complexity and breadth and depth of brands. So, that hasn't been a challenge. And our distributors, of course, love momentum, so do our retailers. And so, when they see momentum like they're seeing with Simply Spiked, they get behind it in a meaningful way.

From an investment point of view that the moves that we've made, not only in the space but, for example, our relationship with Yuengling, which has been absolutely fantastic for us, and that's gained significant market share in it's a new markets we're entering this year, Kansas and Missouri and Oklahoma. We haven't had to put a lot of investment behind that. A little bit of capability in our brewery network to handle a new brand, but it's not anything like you would expect in terms of that particular investment, for example, are very strong.

And then, from a flavor point of view, we always make sure that whatever we're doing, we try and make sure that it's flexible enough. So, for example, we've got a new variety packer investment which came live a couple of


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months ago, which certainly has and will continue to reduce overall costs structure of our flavors. But those lines have the capability to operate broadly. It's not just a Simply or a Topo but it's got broad capability. And the same can be said for the slim can lines that we put into a number of our breweries. They can operate beyond just the flavor space. So, I think we've got better and better at that honestly.

### Lauren R. Lieberman

*Analyst, Barclays Capital, Inc.*

Q

Right. We have time for one more question. So, I just want to close out and talk about capital allocation. So, you've reached your target leverage ratio, businesses throwing off more cash given the step up in sales and profits this year. So, I guess if at all, how have your priorities changed and how should we think about M&A going forward?

### Tracey I. Joubert

*Chief Financial Officer, Molson Coors Beverage Co.*

A

Sure. Our capital allocation priorities haven't changed. It's still those three buckets. We're going to continue to invest in the business to drive top line and bottom line growth sustainably. So, that could be investment in brands. It could be investment in our breweries to drive cost savings or efficiencies or it could be M&A. And Gavin spoken about we're not going to be doing huge transformational deals. When you are looking at the string-of-pearls approach, bolt-on or filling a whitespace or some kind of strategic area, so that's number one.

Number two is to pay down debt. We do want to improve our investment grade rating, and that's really important to us, so we'll continue to look at that. And then, thirdly is returning cash to shareholders. So, the priorities haven't changed. What's great about our performance this year, and actually to be honest, our performance over the last number of years with our active cash flow generation is we now have more optionality. So, we can better balance that capital allocation across those three buckets. And we continue to have conversations with the board and we've got our Strategy Day coming up and we'll give a little bit more about our strategy and how we're approaching our capital allocation.

### Lauren R. Lieberman

*Analyst, Barclays Capital, Inc.*

We'll stay tuned. Good. Thank you very much for joining us.

### Gavin D. K. Hattersley

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

Thank you.

### Lauren R. Lieberman

*Analyst, Barclays Capital, Inc.*

Looking forward to seeing you again in a few weeks.

### Tracey I. Joubert

*Chief Financial Officer, Molson Coors Beverage Co.*

Yeah. Good to hear. Thank you. And thanks for having us.


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**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*

Thank you.

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