05-Jun-2024

Molson Coors Beverage Co. (TAP)

Deutsche Bank Access Global Consumer Conference

Copyright © 2001-2024 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Stephen Powers
Analyst, Deutsche Bank

MANAGEMENT DISCUSSION SECTION

Stephen Powers
Analyst, Deutsche Bank

All right. Welcome back, everybody. I'm Steve Powers. I'm Deutsche Bank's Head of US Consumer Staples. And I'm thrilled to welcome back the Molson Coors Company to our conference. With us today are President and Chief Executive Officer, Gavin Hattersley; as well as Chief Financial Officer, Tracey Joubert. So, again, welcome back, and thank you.

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

Thank you. Thank you, yeah.

Copyright © 2001-2024 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Stephen Powers
Analyst, Deutsche Bank

Q

Gavin, I guess we'll start with you. There's been a lot to talk about in terms of the evolution of your business and your strategy, even since we've sat down a year ago at this conference, most notably embodied by the acceleration plan that you guys rolled out back last October. So, maybe for those less familiar with it, maybe you can just summarize what that acceleration plan is, what it means, and how you envision it resulting in new and improved momentum for the company.

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

A

Yeah. Thanks, Steve, and thanks for having Tracey and I. Look, I mean, the acceleration plan is building on the very successful revitalization plan that we had put in place about 4.5 years ago. And if you look at our company today, compared with where we were 4.5 years ago, we are fundamentally a different company. And the acceleration plan doesn't deviate much from the revitalization plan in terms of its core pillars. So, we've got the focus on the core power brands. We've got the above-premium strategy, we've got the Beyond Beer strategy. And then on top of that, obviously, further acceleration in capabilities, and then always developing and supporting our people.

So, the fundamentals of it are not actually changing that much, but what it does do is take the tremendous progress that we've made over the last 4.5 years and accelerate that, build on the foundation that we've laid.

Stephen Powers
Analyst, Deutsche Bank

Q

Okay, great. And we'll drill into a lot of those points as we go. But I guess maybe just stepping back, lot of discussion on both the health of the consumer generally, especially in the US, and the health of the broader beer industry. We came into the year with good momentum, very – you were very optimistic both on the company and the industry from a February perspective at CAGNY. And then things have slowed, and you noted April trends on your last earnings call as having slowed most notably. Maybe you could update us on what you're seeing through state of affairs across the business, especially in the US? And how much of it do you think is a category phenomenon versus an economic phenomenon or something else?

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

A

Well, you mentioned I was very optimistic about our business early part of this year. I remain very optimistic about our business. I think we've made tremendous progress over the last four years. We just came off a record quarter. We reaffirmed our guidance, and delivering top and bottom line growth for the third year in a row, we think [ph] some (00:03:03) pretty good achievements. So, I remain very optimistic.

From an overall industry point of view, obviously, April and May has been a little soft, a little choppy, lots going on there from a comp point of view and holidays moving around. I think what we really do need to see is the performance of the overall category, both alcohol and beer through summer, right? I mean, that's when we sell the most beer is in the summer months. I mean, for us, it's like 17 Super Bowl weekends in a row. And I think we'll have a much better feel for what the industry's doing by the time we get through that.

Copyright © 2001-2024 FactSet CallStreet, LLC

Stephen Powers
Analyst, Deutsche Bank

Q

Okay. So, wait and see. But confidence in your own and what you're...

[indiscernible] (03:46)

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

A

...confident in our business. I mean, we've – our brands are doing extraordinarily well. I mean, our core brands are holding on to the shares that they gained largely when you compare them with the exit share that we came out of 2023 with, once you remove some of the higher [ph] comps (04:03) and choppiness that existed in the second quarter last year. So, very optimistic.

Stephen Powers
Analyst, Deutsche Bank

Q

Okay, great. And, Tracey, Gavin mentioned guidance, maybe you could just ground us in current-year guidance, and then maybe add some additional thoughts and perspective on both the trends you're seeing to date and how you kind of handicap in the back half.

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

A

Yeah, sure. So as just a reminder, so we have for 2024 guidance, low single-digit for the top line, mid-single-digit – on a constant currency basis, mid-single-digits bottom line, constant currency basis, and then mid-single-digit EPS. And then our free cash flow $1.2 billion, plus or minus 10%. So, as we look at the remainder of 2024, as Gavin said, we had a record Q1. Part of that was that our shipments outpaced the STR volume. Number of reasons, one is to meet the strong demand that we were seeing for our brands. The second is we always come into the summer with higher inventory levels, so we can make sure that we can supply the demand. And then the third one, just the contingency plan, we were going into our Fort Worth brewery negotiations with the union. And as we normally do, and we have a number of negotiations every year because we have several unions, but as a contingency plan, just making sure that we had high inventory levels to be able to meet demand.

So, Q1, we probably outpaced our STR, the shipments outpaced STR by about 750,000 hectoliters. Our target is always to ship to consumption. So, as we look at the balance of the year, we'll see that converge, so you can expect the STRs to outpace the shipments, but really happening in the second half of the year. We'll continue to ship in the peak summer selling season, make sure that we have the right inventory to meet the demand. So, that's one thing that's going to pay into the sort of remaining part of this year.

The other thing is we've spoken about our Pabst contract brewing volumes. So, we said that about 1.6 million hectoliters of Pabst volume is going to come out from Q2 to the end of this year. All of the Pabst volumes will then be out of our system at the end of this year. And that's something that we've been working towards for a number of years.

Pabst business is very complex. They have more SKUs that we make for them than our own brands. So, a lot of complexity in our supply chain, and so – and very low margin as you can imagine. So, having that out of the system is certainly going to help, particularly next year as we go into summer, which is really peak. But for this year, we're going to see a headwind on the top line, but it is going to – it's margin positive for us. So, that's the other thing to take into account for this year.

Copyright © 2001-2024 FactSet CallStreet, LLC

And then from a COGS point of view, we do still expect to see some inflation headwinds, but certainly moderated from two, three years ago. And then our MG&A is pretty much in line with 2023. So, again, all playing into meeting our guidance for 2024.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. Gavin, we talked about the US, and perspective there, maybe kind of looking broader around the world and your business here in Europe and elsewhere in Canada, how are you seeing the sort of the industry backdrop playing out there?

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

A

Yeah. I guess the most notable improvement that we've seen is in our Central and Eastern European business. The consumers come off a couple of years of really tough conditions, energy prices through the roof, inflation high. It's really squeezing the disposable income of the consumer in those markets. And we've seen quite a notable change from that perspective and consumers coming back in ever-increasing numbers. And so, that's obviously reflected in the performance of those markets.

The UK has been pretty resilient throughout and that hasn't changed much. And Canada, the industry's been challenged, but our brands within the Canadian industry are doing extraordinarily well. We're gaining share in Canada hand over fist. And so, whilst the industry's been a little soft, our share gains are very positive.

Stephen Powers
Analyst, Deutsche Bank

Q

Okay. Good. [indiscernible] (08:45) I mean, at the core of your go-forward strategy is strong performance and steady growth at the core of your portfolio. And brands, you've mentioned [ph] Canada Molson (08:59), brands like Carling in the UK, Ožujsko in Croatia, those are all part of the core, as well as obviously, Coors and Miller in the US. How happy are you in general with the positioning across those core brands? And how confident are you in the performance going forward?

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

A

Yeah. It's a great question, Steve. I mean, we're very pleased with the performance of our core brands. If you look back and when we started the revitalization plan, many of our core brands were challenged from a performance point of view. And if you fast forward to today, let's start up in Canada, Coors Light is extremely healthy, doing particularly well, gaining share, has surpassed the number two brand to be the number two brand in the country, and is on a trajectory to take over from number one in the – at some time in the future.

Molson Canadian, this turned around particularly well. It's the new campaigns that we've been running around [ph] Everybody (09:55) In. It has been very well-received by the consumer and is doing very pleasingly for a brand that's been struggling for a long time, the Molson franchise.

Looking over the water, we've put a lot of emphasis and focus on our core portfolios. So, brands like Ožujsko in Croatia, it's a very big brand there and it's growing share on an ongoing basis. And the campaigns that they've launched there are really resonating from an overall consumer point of view. Carling remains the number one in

Copyright © 2001-2024 FactSet CallStreet, LLC

the UK. It's leveraging their sponsorship of the FA Cup, which we did for the first time this year, very well to broaden the appeal of that brand.

And then, looking across to the US, unquestionably, Coors Light and Miller Lite and Coors Banquet, which are our core brands in the US, have increased their market share substantially. Coors Banquet in particular is accelerating on the back of substantially increased distribution and a really, really good campaign around legacy and tying in Yellowstone. And Coors Light and Miller Lite, on the back of – I mean, they were doing particularly well coming into what happened last year. And of course, that just accelerated the momentum even more now with the shelf resets taking place as we speak. Our ability to hold onto the share we gained from an exit point of view is strong.

So, in summary, very pleased with where our core brands are now and we're going to continue to fuel that momentum.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. And so, drilling into what you just mentioned on the US, as you said, as Bud Light declined last year, Coors Light, Miller Lite stepped in, gained a lot of momentum, held and extended that momentum right through to very advantaged shelf resets this past spring. As you parse through the data, and there's a lot of moving parts because of the industry ups and downs [indiscernible] (12:06) how are – early days, but how are you – versus your expectations, how are those brands performing as [ph] we start to cycle (12:12) that strength? And what are you positioning – what are you doing to position the brands for extended strength as we go into the back half?

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

A

Yeah. Feeling good about it, Steve. I mean, if you – I mean, obviously Q2 last year was – there were some very, very high weeks of share change. And if you look at what happened post – it started in June, but mostly in the back half of the year, the share trends came off a little bit and then stuck. And they stuck at similar level on a rolling 13-week basis all the way through to the end of Q1. And if you compare our current share performance of those core brands with the exit share performance in the backend of last year, you'll see that we've retained almost all of the share that we picked up. [ph] I know folk (13:03) like to compare with week – single weeks within the highest comps.

Stephen Powers
Analyst, Deutsche Bank

Q

No one looks at the weekly data, Gavin.

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

A

Yes, I'm sure you're right, Steve. You'll see that we've retained the lion's share of our gains. And that was before the resets even took place, right? Because, I mean, some of the bigger chains are just finishing their resets now, and we've gained what we expected to gain on Coors Light and Miller Lite, and we've gained actually a little bit more on Coors Banquet than we were expecting. And we're going to fuel that momentum, with Coors Light, we've got the newest iteration of Chill, which is Choose Chill campaign.

We've got the second year of Leagues Cup. I mean, last year was the first year it was launched in the US, and so, there wasn't a lot of awareness of it. And we kind of got into that sponsorship right at the start of the tournaments

Copyright © 2001-2024 FactSet CallStreet, LLC

and didn't have a lot of time to leverage it. And this year, we've got a whole year to plan for it. And I think with the success of the Leagues Cup last year, which was fueled by Messi actually winning the trophy, there's a lot more awareness in both Mexico, Canada, and the US, and so, we'll be leveraging that hard in summer.

And then Miller Lite's got the [ph] Great Taste (14:21), Less Filling all-stars campaign. We've got some new iterations of that that'll be coming. So, lots of good stuff around our brands that we're going to use to fuel the momentum and make sure that the resets that we got are justified.

Stephen Powers
Analyst, Deutsche Bank

Q

Okay. Maybe just on Coors Banquet, because I still think that's a huge success story that still flies a little bit under the radar. I think everyone sees what's going on with Coors Light and Miller Lite just because they're such big brands. But arguably, Coors Banquet is one of the biggest winners of the shelf resets this past spring. Momentum's been great for a long time. Why, and how much upside do you see in that franchise?

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

A

Yeah. I mean, you're right. It does fly a little under the radar screen. It's actually quite a big brand. It's one of our biggest brands and it's been successful for a while. Our distributors have done a tremendous job of building distribution for that brand. Couple of years ago, we showed our distributors the differential between Coors Light distribution and Coors Banquet distribution, and for those distributors, markets that had Coors Banquet much closer to Coors Light, the velocity improvements on both brands, and the distributors took that challenge up. And even before the Bud Light situation, we're strongly driving Coors Banquet's distribution. And we've closed the gap between Coors Light's distribution and Coors Banquet's distribution quite a lot. And so, the benefits that we're achieving because of that are obvious.

Stephen Powers
Analyst, Deutsche Bank

Q

Yeah. Great. Now, around those core brands that we just ran through, you've long had and still have pretty ambitious plans to continue to premiumize the portfolio and expand selectively, at least, [ph] Beyond Beer (16:04). So, there have been some clear successes. You managed to talk about the UK and not mention Madrí, which is...

[indiscernible] (16:12)

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

A

...asking me about core brands.

Stephen Powers
Analyst, Deutsche Bank

Q

That's true. That's true. And then we have examples like Simply in categories that are beer-adjacent in the US. Then there have been some initiatives that maybe are still opportunities or opportunities that maybe have taken a backseat. We think about Blue Moon, which I think is definitely still an opportunity but in process. Peroni, which you've just made some moves on to hopefully accelerate that brand, as well as ZOA and Vizzy. So, the net of it is how do you rate your progress on that sort of those initiatives beyond the core and what needs to be done in order to reach full potential [ph] things (16:57) that you have not yet?

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

Yeah, sure. So, I mean, when we started out, we had about 23% of our global revenue was in the above-premium space, and we've improved that to 27%. It would have been more as a percentage if we didn't have a big uplift in core. I'm not complaining about that. But – so we did increase it by 20%, and we've got a medium-term ambition to get that to a third of our NSR.

Europe is ahead of that. They're – north of 50% of Europe's NSR is now in the above-premium space largely driven by Madrí. So, I'm going to mention it, now that you asked about above-premium. That brand has got tremendous potential, even [ph] and still (17:37) in the UK, it's a big brand. I mean, it's north of 1 million hectoliters. It's our number – it's one of our top 10 global brands now. But the awareness in distribution availability [ph] in – and (17:48) upside in the UK is still strong. So, we think there's lots of growth still to be had in the UK. We've taken the brand to Bulgaria and we've launched it in Canada. So, from an above-premium point of view, that's obviously – and we've got lots of horses of brands in that particular race in Europe, but Madrí has been the superstar recently.

Outside of the US, many of our global brands actually operate in the above-premium space. And so, Miller Lite in Canada, for example, is an above-premium brand, price point is higher than the mainstream. That brand is growing very, very strongly, albeit off a smaller base, but it's really starting to gain traction as they leverage the campaigns that we've got down in the US into Canada. The same applies to Latin America where brands like Miller High Life, which is obviously an economy brand in the US, is an above-premium brand in Mexico, and actually it's growing particularly strongly.

In the US itself, Simply and Topo Chico franchises are big franchises now. And so, we've reached a stage where we're not only growing the top line and volume, but we're actually now making meaningful contributions from a bottom line point of view as we get to the critical mass with those brands. We've launched some really interesting innovations with Happy Thursday, which is tapping into a consumer insight that wanted bubbles out of their ready-to-drinks, and we've given them that with ready-to-drink cocktails [ph] that are (19:23) bubble-free. And early days, we'll see how that goes.

You referenced Peroni. We've long thought that Peroni can be a lot bigger than it is. And having a consistent supply chain now where we can guarantee supply to our retailers and distributors who've really wanted to support the brand but have been concerned about the lack of consistency sometimes in supply chain, and this will certainly resolve it and give us more firepower to actually put behind the brand, frankly.

You referenced Blue Moon. Obviously, the overall craft category has been somewhat challenged. And because Blue Moon is the biggest brand in that category, and certainly our biggest player in the craft space, has faced some headwinds. But we've made some substantial changes to Blue Moon. We've introduced new campaigning around Made Brighter, which focuses really in on the beautiful iconography of the Blue Moon brand in the on-premise. We've repositioned the Blue Moon LightSky, which was a little confusing to consumers, to Blue Moon Light. And we've launched Blue Moon non-alc, which is providing a really nice halo impact on the whole of the Blue Moon franchise, tapping into the folk that want a non-alcoholic product. The brewers have done a tremendous job with that brand, and the taste is what you would expect a Blue Moon to taste like. And then to wrap all around that, we've changed the packaging, so that it looks like one brand family when you see it in the off-premise as opposed to different brand family. So, lots of work that has gone into Blue Moon and we're confident that that's going to change the trajectory.

Copyright © 2001-2024 FactSet CallStreet, LLC

Stephen Powers
Analyst, Deutsche Bank

Q

Great. Tracey, maybe for you, to make good on the growth objectives that Gavin has just kind of talked through, both the core and around the core, there will be new capabilities required, investments required. And you talked about building those capabilities. Maybe we can just – I mean, this includes operating capacity, more sophisticated manufacturing, it's kind of step change in both your procurement and your supply chain marketing efficiencies. There's a lot you're working on at once. Where are the biggest pushes being made right now? And how are you tracking the kind of the return on those efforts?

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

A

Yes, I would say the largest investments has been capabilities in our supply chain. So, you mentioned, over the last couple of years, we've replaced two breweries in Canada with modern automated breweries, driving cost savings and efficiencies. We're on a multiyear journey with the modernization of our Golden Brewery. It should be coming online pretty soon, certainly by the end of this year, and that's going to drive a lot of cost savings and efficiencies as well.

And then from a supplier base, we've really diversified our supplier base, leveraging our scale over a number of suppliers. And that's certainly helped not just from a cost point of view, but also a supply continuity point of view. We have invested in capabilities around flavor. Where in the past, we would outsource that. We now have flavor capabilities. We have variety packing capabilities, which also is cost savings efficiencies. We've built slim-can capacity in our can plants.

So, a lot of the investments that we've made over the last couple of years has been focused around supply chain, and driving efficiencies and cost savings, but we've also built capabilities, to your point, around marketing. So, we've built our own in-house agency. That's not only just at a lower cost, but it allows a lot more flexibility and agility. So, if we need to pivot on a campaign, we can do it pretty quickly, because it's all in-house.

We've also spent a lot of time and effort on our return-on-marketing investment models. So, we are now able to almost in real-time see what is working, what's not working. And because more than 50% of our marketing spend now is in the digital space, that allows us, again, a lot more agility and flexibility. We can change that very quickly versus the traditional marketing, if you think of big media spend, you generally contract that well in advance and then you have to kind of stick to it. With the digital, it's much easier to switch on and off. So, we've spent a lot of time making sure that our marketing investment is driving high returns.

And we have hurdle rates for all of these things. So, whether it be the capital spend, we know what the hurdle rate is, and whether it be marketing, we've got this return on marketing investments. And we, again, we track all of it and make sure that we are delivering those returns. But it's much easier to sort of flip [indiscernible] (24:52) because of the agility now that we've built in in the business.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. On the supply chain front, where – how far down the path are you to sort [ph] of – the (25:04) step change that you're currently on, it's never-ending journey, obviously. But in terms of the accelerated push on that front, how far, how close to the end are we?

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

I mean, I think there's always still opportunities. So, one of the programs that we put in place several years ago is World Class Supply Chain. So, basically, what that is, it's a program, it was based on the [ph] P&G (25:27) program where it really drives efficiencies, capabilities, it eliminates waste. And so, we're still rolling that out to our breweries. I mean, we've done a fair amount. But there's things like that, we're just constantly looking at cost savings and efficiencies. So, we're happy with our brewery footprint. I think we're always looking for ways to drive efficiencies. And cost saving – supply chain is very easy to measure because you can see the returns almost immediately. So, yeah, we'll continue to look at that and keep driving the efficiencies.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. Gavin, when you think about the new capabilities being prioritized, what gets you most excited? What do you think has the biggest impact? We didn't talk about revenue growth management. That's another initiative that I know we spent a lot of time on. Just when you think about all the things going on in the organization, what sort of gets you most excited?

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

A

Yeah, it's a great question. So, I mean, obviously, the work we're doing in supply chain from an AI point of view gets me really excited. The capabilities that we've put into our breweries is very strong. Growth revenue management has been a capability we've been building on an ongoing basis for the last 10 years. So, I'm excited about it. We've been doing it for a while.

Stephen Powers
Analyst, Deutsche Bank

Q

Yeah. Yeah, yeah.

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

A

I would say the work we're doing with AI and supply chain's probably the most exciting.

Stephen Powers
Analyst, Deutsche Bank

Q

Just [ph] to focus, to pause (26:59) on AI, I mean, are there things that you feel like you're doing different or ahead of the curve on? There's been a lot of talk about AI at the conference and kind of a background buzz as to whether or not it's really a point of differentiation or just sort of something everyone has to do at this point. [indiscernible] (27:16)

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

A

Yeah. I mean, yeah, certainly, supply chain, we do see a big benefit in. We've implemented AI in our breweries. It's really connecting our supply chain from end to end. And so, for example, without getting into too much detail, it's looking at do we have the right brands in the right markets, the right SKUs, at the right time. And by connecting our sales data with our supply chain data, we're able to make sure that we're doing that and it eliminates out-of-stocks. It also makes sure that we don't have too much inventory out there. It's – we do generally make to order,

Copyright © 2001-2024 FactSet CallStreet, LLC

but the AI that we've now put in place in our supply chain connecting to our sales is really making it a whole lot more efficient.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. The investments – sorry, the capabilities we've just discussed are going to, obviously, they do require investment. Is there a way to frame sort of the gross-level investments you're making in support of the efforts? And can you – either way, can you talk about [ph] some of the how (28:28) you're funding them in terms of cost savings efforts and productivity efforts, which I know have also accelerated?

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

A

Yeah. I mean, from a supply chain point of view, our guidance out there is CapEx spend around $750 million, plus or minus 5%. And even if you look at the past, we've generally spent around $600 million, $700 million. And we've put in, and we've built significant capability within that sort of bucket of money. So, we think we do the investments and the spend in our breweries very efficiently. And so, we would not expect any major step-up. I mean, we've managed to do all of those big projects within that sort of same bucket.

From a marketing investment, again, because of the capabilities that we've built and the efficiencies that we drive, we don't expect big step-up in MG&A. We expect for this year to be in line with the spend that we did in 2023. So, I think you'll find that we are very responsible with our spend and our investment, and make sure that it does drive high returns. But don't expect any major step-ups in any of our investments.

Stephen Powers
Analyst, Deutsche Bank

Q

And while we're on the topic of costs, I know you get asked about this a lot, but your COGS per hectoliter outlook, especially when it comes to raw materials, generally have pretty good visibility into that. What is your cost outlook and maybe remind us of how you – of your pricing intentions, both in the US and overseas?

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

A

Yeah. So, we have said that we expect inflation to continue to be a headwind for this year. We're certainly seeing it moderate significantly from two, three years ago. A couple of things driving, if you look at 2023 and Q1, I mean, we obviously benefited quite a lot from leverage, volume leverage in our breweries. As we plan to ship to consumption, as I said earlier, we're going to see some of the shipments sort of converge. And so, we wouldn't expect to see the same benefit from volume leverage as we did in Q1 and last year.

To mitigate some of the inflation, we've got the cost savings. We also have our hedging program. So, when we hedge, the strategy is really to try and eliminate as much volatility out of the upswings and the downswings in commodities. And because of that, we've got a longer-term strategy. So, we have – we still have hedges that we put on in 2022 and 2023, which is a little bit higher than the markets. But the way that we hedge, it allows us also some opportunistic hedging. So, now that aluminum prices are increasing, it doesn't mean that we have to layer on additional hedges. We can hold out with the insights, and if it says listen, this is a peak, we don't have to layer on the hedges.

Copyright © 2001-2024 FactSet CallStreet, LLC

So, hedging goes into the COGS as well. Cost savings help mitigate that. And then some of the things that we spoke about earlier, the Pabst contract brewing coming out of our system is certainly going to help the complexity that we see with the COGS, as well, so.

Stephen Powers
Analyst, Deutsche Bank

Q

Okay. Great. When it comes to some of the capabilities in the investments and initiatives that we mentioned, plus just the backdrop of the acceleration plan, now that we've been six months, six-plus months into that plan, what's – Gavin, what's been the response internally from the folks who work at Molson Coors and from your distributors in terms of the buy-in of the plan? Do you feel like, culturally, people are behind the plan and maybe any kind of anecdotes you might be able to offer in terms of proof points?

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

A

Yeah, 100% they're behind the plan. [indiscernible] (32:33) distributors are the ones that give you the feedback pretty quickly if they're not. And certainly, there are a bunch of distributors that I find that if I want an honest answer, there's – call those folk. And they're very clear about the fact they like our plan, they like the health of our business, and they like what we're doing, and they're very, very supportive.

I think retailers have voted with [indiscernible] (32:57), with shelf resets, and given us substantial shelf, additional shelf space, which, as I said, is coming into place now. So – and from an internal point of view, we've just come off a record year, we've come off a record quarter, and the excitement for the plans that we've got is as high as it was before.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. Great. Leaning into that strength, right, Gavin, you've talked about an M&A appetite being backed by kind of a string-of-pearls strategy, so nothing big, but finding value-accretive, effectively bolt-ons, to strengthen the core. Maybe articulate a little bit more about what that strategy is and how you see it prioritize amidst everything else we've talked about?

And then, Tracey, maybe you could kind of weigh in from a capital allocation standpoint and the relative prioritization of cash, now that you've hit leverage targets?

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

A

Yeah. Steve, you're absolutely right. I mean, the string of pearls has been our approach now for some time for nearly five years. And I think what's changed is only the size of those pearls have got a little bit bigger. Maybe five years ago, they were $20 million, $30 million, maybe they're now $100 million. I think that strategy's worked really well for us. Some of the best M&A activity we've had has required very little capital investment from our side or investment from our side. Our partnerships that we've entered into have been enormously successful for us, whether that was our partnership with the Yuengling family or with Coca-Cola, both didn't require large investments from us and have generated significant value for both our organization and their organization.

And so, it's an approach that works well for us from a capability point of view, looking for the white spaces that we don't have, and leveraging those. So, it's a strategy we'll continue. We like it, it's working.

Copyright © 2001-2024 FactSet CallStreet, LLC

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

A

I mean, from a capital allocation, the buckets haven't changed. I think the priorities maybe have changed a little bit. So, if you think about five years ago, it was really important for us to get an upgrade from an investment-grade rating and to really strengthen our balance sheet. And so, we had a medium target, leverage target out there of to be below 2.5 times. We did achieve that earlier than we had anticipated. And last year, October, S&P upgraded us, and then in November, Moody's upgraded us. So, we feel really good about our balance sheet and our investment grade now.

And so, our number one priority in terms of the buckets now is to invest in our business to drive that long-term top and bottom line growth. We've spoken about investment in our breweries. We've spoken about M&A and the string of pearls. So, we'll continue to prioritize that. We've spoken about the balance sheet.

And then the third bucket is returning cash to shareholders. So, in October of last year, we announced the $2-billion share buyback program. Our board approved that because they believe we're a good investment. And so, we have been buying back shares. If you look at the first two quarters of that, we have been active in doing that, and then returning cash to shareholders through dividends. And our target is to sustainably increase the dividend. We've done that. We just increased our dividend this year by another 7%. And so, that's also an important bucket. But really, the priority is we want to invest in our business to drive the top and bottom line growth.

Stephen Powers
Analyst, Deutsche Bank

Q

Great. And I want to make sure we leave enough time, Gavin, for you to answer this last question, so I'll make it the last question.

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

A

Sure.

Stephen Powers
Analyst, Deutsche Bank

Q

As you think about everything we've talked about, just maybe sum up for investors who are looking at Molson Coors as an incremental investment opportunity, really what are the primary factors that give you the confidence that you have, consistently hit long-term profit objectives, because I think that that is sort of the pivotal investor question right now.

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

A

Yeah, sure. Look, Steve, if you look at our business today and compare it to where it was five years ago, it's fundamentally different, right? I mean, Tracey's talked a lot about the balance sheet. Our balance sheet's fundamentally stronger than it was before. It gives us lots of optionality to do lots of different things, as Tracey's mentioned.

The core strength of our portfolio, the core brands, are much healthier, gaining share, momentum's strong. They're a large part of our profitability and they're in a much better place than they were before. So, it gives us a really good foundation. Our above-premium portfolio has gone from 23% to 27% and we've got lots of arrows in our bow, which – some of which we've talked about, some of which we haven't, right, to drive that above-premium

Copyright © 2001-2024 FactSet CallStreet, LLC

share of our portfolio much stronger. And then we've laid a really solid foundation in the Beyond Beer space, with ZOA being a primary example of that. But all the work that we've done around flavor, whether that's Simply, the new innovation around bubble-free, ready-to-drink cocktails.

So, a lot of activity that's taken place. Great foundation. Some of those things are starting to reach a critical mass, and as I said, adding value to the bottom and the top line. We've delivered against what we said we were going to do. We've done that for two years in a row now, 2022, 2023. Our guidance says we're going to do it again. And the foundation that we have laid gives me strong confidence in our ability to deliver the medium and long-term guidance that we've got out there. All of the pillars are flowing in the right direction, working well.

Stephen Powers
Analyst, Deutsche Bank

Great. Almost exactly on time. So, with that, thank you very much, Gavin, Tracey. Thank you all for joining us.

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

Thank you.

Stephen Powers
Analyst, Deutsche Bank

Have a great remainder of the conference.

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

Thank you very much.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.