02-Dec-2025

Molson Coors Beverage Co. (TAP)

Morgan Stanley Global Consumer & Retail Conference

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MANAGEMENT DISCUSSION SECTION

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Great. Good afternoon, everyone. I'm Eric Serotta from Morgan Stanley's Beverages and Household Products and Tobacco Team. And I'm very pleased to welcome Molson Coors back to our Global Consumer and Retail Conference. Before we begin, please see the Morgan Stanley Research website at www.morganstanley.com/researchdisclosures for important disclosures. And if you have any questions, you can reach out to your Morgan Stanley sales rep.

So joining us today, we have Molson Coors' new CEO, Rahul Goyal; and CFO, Tracey Joubert. While Rahul just became CEO on October 1, he's a 24-year veteran, 24 years of Molson Coors. He was a key architect of TAP's Beyond Beer and overall strategy in his prior role or his most recent role as Chief Strategy Officer. So Rahul and Tracey, thanks so much for joining us.

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

Thank you.

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

Thank you, Eric. Thanks for having us.

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QUESTION AND ANSWER SECTION

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Great. So, Rahul, you've stepped into the CEO position at a challenging time for both Molson Coors and the US beer industry. Industry volumes are on track to decline 4% to 6% this year, big picture, what do you see as the biggest challenges and opportunities ahead and what advantages does Molson Coors bring to the table to navigate this difficult environment?

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

A

Yeah. No, it's a great set up, Eric. So if you think about it, I mean, there's a lot written about the challenges. So I'll just touch upon that just for context, but more about the opportunities ahead the way we think about the business. So, there's a lot about the category and the headwinds in the category, whether that's all of alcohol, whether it's beer, that's definitely something we think about.

If you think about the cost side inflation, relevant to us in our business, we have the Midwest Premium. We think about that. Those I would say, are the big things that are outside our control, right, and the macro issues that every other CPG companies dealing with. So those are the big macro issues. But I think the opportunities is what we try to focus on is what can we control and what can we do. And I break that down for us in our business is one around our portfolio. So if you look at our brands and our portfolio, right, we have a pretty broad portfolio that meets the needs for different consumers. So I think that's a great opportunity. And I know we'll talk a little bit more about that in the context of the core brands, what those mean.

And when I say core brands, I mean like Coors Light, Miller Lite, Banquet, Economy category. So our Economy category is an important aspect, especially in light of what's happening with the consumer and making sure we have an offering for them, we have so much runway in Above Premium, both in Beer and Beyond Beer. So the portfolio overall I think is exciting.

The other aspect I'll call out as opportunities for us is our capabilities and our infrastructure in some of the best profit pools of the world, right? So if you look at our global footprint, we are in markets that we have, very good profit pools and we have a big infrastructure and capabilities that we can win in that infrastructure, right? So we have our distribution network, our brewery infrastructure, our supply chain, commercial capabilities. So I look at that as definitely a strategic advantage as we think about, the category and the challenges.

And then the third thing I'd call out is our balance sheet, right? So if you look at us as a business, our free cash flow, our yield in terms of cash, our leverage ratio and our balance sheet in a much stronger place today than it has been previously, that allows us to, go into this next chapter in a strong way. So, yes, external context is hard. Category is hard. Some of the things are outside our control, but we've got so much opportunity to lean into the places that we can drive our business forward.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then as we look ahead, in the context of the whole cyclical versus structural debate, which we're not going to solve here, but how are you thinking about growth for the industry next year and over the mid-term? And

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then, realizing you haven't come out with your full strategy yet and addressed the algorithm, but, sort of how does this tougher industry outlook and competitive environment kind of play into your mid-term plan?

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

A

Yeah, no, I think it is – I know that is a question on everybody's mind, right? Cyclical, structural, what does that mean? And the way I'd contextualize this is if you go back, just even COVID years and pre – around that timeframe and 10 years before that, the Beer category has been in the minus 1%, minus 2% space volume wise, right? The last few years has been in the minus 3%-ish number. And then this year, it's in the minus 4%, minus 6% range, right? So minus 4.7% to minus 5% range. So there's definitely something happening this year.

Now, is it consumer health? Is it, Hispanic consumers? Is it, folks pressured under just generally what's happening in the macro environment? All of that is true. So, we don't – we do believe that this cycle will pass, right? The cycle will pass and we need to get our business, this category back into a place where you're back into the 3%-ish range in terms of what the category can do.

Now, there is a responsibility on us and the category as a whole to make sure we are investing in the category and making sure we talk about beer in a way that is meaningful and engages consumers, I was talking to some folks earlier today, beer and alcohol gets a little bit of a bad rap, but I'm sure you guys have all seen the studies that something affecting younger population today, bigger than anything else is isolation, right. And that's one of the issues. And if you think about beer, it is the choice of moderation. It is a way of bringing people together. So I think there's a category thing that we need to lean in, us as a company and us as a category.

But then to your question of for us, Molson Coors, if you break down our portfolio, we have good core brands that we need to make sure are healthy and winning share. We have economy portfolio, that we haven't talked about a lot in the recent times but we just need to make sure we're keeping that healthy. There is a consumer that loves those brands. We need to make sure they are relevant, our brands are relevant, and we just got to stop the leaky bucket in a way.

And then Above Premium Beer is just opportunities for us. So while we have made good progress in Canada, in the UK, we have more work to do in the US. So for us all of that is upside. And then Beyond Beer is again new vectors of growth that we did not have previously. So, with that combination, once the category gets a little bit more settled, I think we can find a way of getting back to our, growth of the top line and bottom line.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then so digging into your portfolio segments as you laid out, looking at the US. So your core brands, Miller Lite, Coors Light, Banquet, huge progress in terms of brand health and market share if we take a multiyear horizon. But, in the past year or so, we are seeing some heightened competition, some improved market share trends from ABI, whether it's Ultra, whether it's Busch Light. So I guess what's the playbook from here to improve the core brand, market share...

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

A

Yeah.

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Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

...and eventually top line?

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

A

No, no, I think that's a great question. And I think you're right. If you look at our share performance this year compared to last year as a total company, we have lost share. But if you break that down, the two areas that we've lost majority of our share is the economy portfolio and flavor. We've lost some share in core brands, as you said, Coors Light, Miller Lite and Banquet. And if you go deeper into that, but that's a very small part of what we've lost share. But if you look at that place, Coors Banquet is doing really well. We're gaining share. Even Coors Light is pretty strong if you compare just Coors Light, right? I mean, we have to do some work on Miller Lite in particular regions.

But we have, this is part of the portfolio that we just have to win shares. I mean, that's the thesis. So, I think we're pretty excited as we turn the corner this year going into next year. If you look at Coors Light, we have I think 30-plus college affiliations in terms of sports and how we bring the brand to life, with Miller Lite, we have, I think, 19 NFL partnerships, we're excited about some of the new campaigns we're going to be bringing forward starting next year around sociability, and how do we make sure we bring people together using our big brands.

So while we have work to do in our total portfolio, I think, it's important for these brands to be healthy, important for these brands to be gaining share. And again, our regional execution on the way we're going to do things, will help make sure we address some of the gaps we have in things like Miller Lite in that particular region. So, overall headline is these three brands obviously super important to us, very focused on it being sure we have the right level of investment. We change a few things on execution. But, feeling good about our ability to keep keeping the share and gaining share on this in the core.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Good. So, turning to your Above Premium portfolio, you've had some successes like Peroni. Other areas have been a bit more mixed. Blue Moon in progress, some signs of progress, but a little bit slower than I think we'd all like. Some ups and downs with your flavored offerings, which, not unlike the category. So can you talk a bit about what you're doing to accelerate the growth for the Above Premium business and sort of how that fits with your target to increase your global Above Premium mix from was it 27% to about a third over the next few years?

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

A

Yeah, no. So if you look at our Above Premium agenda, I think 27% is the right reference point now. I think we were 23%, 24% when we started this journey four or five years ago. So we have been making progress. And most of our progress, frankly, has been in countries outside the US, right? So in Canada, we've done a great job of premiumizing. UK, we've done a great job of premiumizing. But yeah, we've been – in the US, that's been the challenge. And if I break it down into three buckets for premiumization, its Above Premium Beer, its flavors, as you said, and then, call it pure-play non-alc. That's the third bucket.

And if you look at Beer, Peroni has done well. We have so much runway, so much opportunity in that, in that brand with the green bottle and really winning in the United States. But Blue Moon's been hard. And frankly, we have work to do on that. If you look at Blue Moon as a brand, the innovation is starting to show some progress.

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So if you look at non-alc, if you look at the high ABV brand, high ABV Blue Moon, that stuff is starting to put some support for the total brand family. But our core brand needs some work.

And if you look at Q3 numbers, I mean, if you go back to Blue Moon, Blue Moon was built on premise, right. It was built with the Orange. And Q3, our on-premise trends for Blue Moon got better. So we have work to do on Blue Moon. It is something we're going to be super committed to. It is taking more time. So I think that is true. We have a new campaign now with Colin Yost -Jost, sorry, I mispronounced his name. But, we are excited. It is a brand that is important to us. It's a brand that we're going to stay committed to. But yes, you're absolutely right. We have work to do on the Core Blue Moon brand. It just taking a little longer.

To your question on flavors, flavors is volatile category. I mean, we had some good success with Topo Chico. We had some good success with Simply initially. We got some scale. But this category is volatile and, we got to stay fleet afoot and make sure we're winning in a way that the consumer pivots in this category. And I think we've been able to do that with Topo Chico, how we pivoted from Seltzers to a more full flavor beverage, the Margarita.

But we have work to do on Simply. Simply is where the majority of our drag is in the flavors side. We have some new launches with the higher ABV products, smaller packaging. But flavor is volatile and, it is something we have to make sure we're not over-proliferating in terms of brand, in flavor, et cetera, but it is something we'll have to continue to work on. And there's some gaps in solving in the RTD space that we need to lean in on.

And then just the last part in Above Premium is, I would say non-alc, Beyond Beer is making progress. I mean, this year, we have Fever-Tree. It adds to our premiumization effort. It's complementary to our portfolio. It works well within non-alc and alc. So it is an execution, and we can execute it well within our business or within our infrastructure. So I think all of those three things will help us move the journey.

On the premiumization piece, I again go back to, if you look at the consumer today, in our core markets, it's a bifurcated consumer. You got the top end of the consumer that's doing well. And, our brands like Peroni, like Fever-Tree are relevant to that consumer. On the other hand, we need to make sure Economy portfolio and other parts of our portfolio are relevant to the rest of the consumer.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. It is a good segue into my next question at the other end of the portfolio spectrum. You said on the third quarter call a few times that all segments matter, which I don't think I've heard from Molson Coors in a few years. Maybe back when Gavin was CFO, I heard some talk about that. So you also said that you'll be increasing investments behind a few economy brands like Miller High Life and Keystone Light. So I guess what's driving the change here and what's the goal for the Economy portfolio within the US business? Are you just trying to hold share or are you trying to go back on the offensive?

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

A

Yeah, no, I think it's a great question. And I would ask you to think about it in the context of the consumer first, right? Again, I go back to the US consumer, even in Canada, and to some degree in UK. You do have a bifurcated consumer, right? You have folks that things are going pretty well for them. And that's why Peroni sells well. That's why Fever-Tree sells well. And but then you have a consumer that is under economic pressure. And, our Economy portfolio is a sizable part of our business.

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I'll just use as a frame of reference, if you just look at our Economy portfolio, you'd probably be fourth or fifth largest beer company in the country. So it is an important part of our portfolio and we need to make sure we're giving it the right. It's important to us. It's important to our distributors. So it is relevant from a consumer perspective. It is relevant from our business perspective. And now we need to find a way to win in that space, right? We have been bleeding share. We've been bleeding volume there. And I would say there's two goals there.

One, this is a very regional business, right? The Economy portfolio is very regional. There's few brands that work in very specific geographies, High Life and Keystone are big brands that are more national, but even those have a very different geographical footprint on how these brands show up. So we got to win with these brands. Again, I think I shared this anecdote with folks. Anybody here heard about the Hamm's Convention in Minnesota? No? And you probably didn't hear about the Hamm's Convention in Minnesota. But, Hamm's, for some of you who maybe, Hamm's is a great brand and but it's sold in four states. And you have consumers that love the brand. And by the way, we don't sponsor that convention. They just make this stuff up on their own.

But it is. I talk about the love for these brands, right? It's relevant and now it's on us to make sure we can bring that relevancy for those folks in a way and engage them on this. So it is both a play of making sure we meet the consumers where they are, but then also making sure we have the right investment. These are not – we're not talking about big national campaigns around sports, et cetera. We're talking about very localized, focused efforts around our Economy portfolio on where these brands are relevant.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then your performance on-premise over the past couple of quarters has been notably stronger than off-premise. It's a little surprising given, as you talked about that, that consumer bifurcation, or at least the low end consumer weakness. So, what's driving this and how sustainable is it as you look to 2026 and beyond? When you win TAP handles, how sticky is that, real estate?

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

A

Yeah. And I think I go back again to couple of points is, about sociability, right? I mean, Beer is the product of sociability. Beer is the product of bringing people together. It is about celebrating moments together. So to your point as an industry, on-premise in Q3 was slightly better than off-premise trends. I think about 2-plus points. And then our performance I think was a little bit better than that in the on-premise. So if you look at on-premise for us, obviously we have the big brands that matter, Coors Light, Miller Lite, but the things I'd call out is Banquet, right? Again, it's 150 year old brand and it's one of the most popular brands with Gen Z. It's one of the most popular brands with Hispanic consumers.

So it is – you got to find the right connection of these brands with consumers. And I think, Banquet has done a phenomenal job of making that connection. And I think you saw that in the on-premise numbers. And then I go back to Blue Moon, right? I mean, we have work to do in Blue Moon as a core brand, but on-premise trends in Q3 got better than Q2. So I do think on-premise is important. I think, generally consumers want that connection. We want to find a way of coming together on sociability. Obviously, beer plays an important role in that. And then our job is to make sure our brands are front in that, in that game, right? And I think we've been able to do that with our core brands, but we need to keep doing that with a bunch of other brands in our portfolio.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

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Great. So turning to your international operations, you've had a nice run of market share improvement in Canada despite a soft industry. Although I think I read earlier in the week a Wall Street Journal article about the industry picking up a bit in Canada. And then you've had some continuing momentum from Madri in the UK despite a soft industry there and some pretty tough competitive activity. So how are you thinking about the outlook for your international business over the next 12 to 18 months? And then, over the medium term, given these cross-currents?

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

A

Yeah, no. I think, again, if you think about our business, right, we are operating in the set of geographies – US, Canada, UK and a few countries in Central Europe. And I again, go back to this is – these are great profit pools to be in. In Canada, as you rightly said, the category has not been as volatile as the US, which is surprising, right? Usually Canada is a lot more volatile than the US, but Canada has been volatile month by month. But generally, it's been much healthier than the US this year. And we've been growing share. If we look at different provinces, so we've been growing share. So, we're making good progress. Canada, again, Coors Light is the number one brand. We keep fighting for that spot, but it is the number one brand and so. And the Canadian trademark has done really well in Canada.

To your point in the UK, it is a competitive market. It is a super competitive market. But we've continued the journey of premiumization, Madri continues to grow. We have some work to do in our Core in Carling, but we're doing the right things in terms of winning in UK.

And then in Central Europe, I would say just pockets of growth in places where we have a big footprint, right? Croatia, Romania, I think we've done a good job of making sure we can both keep our core brands healthy, but also premiumized. Central Europe has a lot of other call it macro issues around geopolitical concerns in that part of the world. Energy, pricing, et cetera But, if you step back and look at our business, premiumization, we've done a good job across most of our markets except the US. If you look at our European business and the growth profile we've had on that business since even pre-COVID, right, I mean, we have a bigger business top line and bottom line, the growth rates have been comparable or better than Americas business. So those parts of the business are doing well.

Now, I also say that recognizing that we have work to do, right? And if you look at our European business, we have work to do on improving our ROIC. We have work to do in making sure our margin structure and really making sure we can get a good margin structure that's comparable to our peers. So there is definitely more work to do. But, good progress. Good progress in making sure our brands are showing up in the right way, both in Europe and in Canada.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Good. So, Tracey, turning to costs, you noted on the last earnings call that the Midwest Premium was at sort of the upper end of your third quarter expectations and slightly above it in October. So, I know you're not giving guidance yet and you don't give guidance by line item. But, how are you thinking about COGS pressure as you close out 2025? And then, inflation in your commodity basket and into 2026 given that you have a pretty extensive hedging program, but then Midwest Premium is sort of the outlier there hardest to hedge.

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

A

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Look, I mean our biggest challenge is the Midwest Premium right now in our COGS line, we've spoken about this extensively. At the beginning of the year, the Midwest Premium was trading around $0.20. In October, it hit an all-time high and now it's trading around $0.86, $0.87. I mean, there's no reason for that. We've spoken about the fact that, the Midwest premium price is basically set by one entity. There's no – not a liquid market. It's not transparent. We do hedge it, but it's one of our least hedged commodities. And the reason for that is because it is difficult to hedge. Difficult to hedge it far out. I mean, some of our commodities, we hedge out three years.

We can't do that with the Midwest Premium. It's difficult to hedge. It's very expensive to hedge. And because it's so volatile, it makes it expensive. So, as I said, we do hedge it, but it's difficult. So, at the levels that it's at, it'll continue to be a headwind for us. A big headwind, we spoke about the year-over-year impact for us this year, just the Midwest Premium. And we said in Q2, it was going to be $40 million to 55 million. Well, it kept on climbing. And so, we guided to at the high end of that range. But if it continues at these levels, it's going to continue to be a big headwind for us.

And so what do we do? We mitigate that as much as we can through cost savings programs. A lot of our cost savings programs are focused on the COGS line, with our breweries, with our network. So, we have made some difficult decisions closing some smaller underperforming breweries in Wisconsin earlier this year. But we've also made investments in the past couple of years that have helped us to keep our costs low. So, capital investments that we've made in our breweries. And we've built new breweries in Canada. We just completed the modernization of our Golden Brewery that was hundreds of millions of dollars over multiple years. But we starting to see those cost savings and those efficiencies come through as well.

And then the other thing I would say is, all of the other commodities we know how to hedge and they're easy to hedge. And I think we do a really good job. If you look at our COGS per hectoliter, you'll see its well below inflation. And so all other commodities, I think we do a really decent job. It's the Midwest Premium that continues to be a big challenge.

And we're not sitting back and not doing anything. We're trying to shine a spotlight on this, as we have for a while now, trying to get people to look at it and really try and understand, like, what is driving this, because there's no apparent reason. And then just – as we touch on some of our European operation, obviously, the inflation is a little bit higher as it has been since COVID. And, there's a lot of geographical political turmoil in those areas. So inflation is a little bit higher there, but we can mitigate it through cost savings and really having a look at what efficiencies we can drive through our breweries.

So moving down the P&L and, I guess this would be for both of you. Are you running currently at the right level of marketing and brand support or do you see any need for any kind of a step change going forward? And then, as you look a bit more holistically at capabilities and investments, whether it's the breweries that Tracey mentioned or supply chain, digital, are there areas where you need a further step up? Or are you comfortable with the level after the big increases under the revitalization plan?

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

A

Yeah, I can take the initial part, Tracey. I mean, if you look at our brands, I mean, I know we talk a lot about the category. We talk a lot about what's happening cyclical, structural. But I think what we are going to stay focused on making sure our brands are well supported, right. Again, your question about do we think we need a significant increase in spend? We probably don't need that. I mean, I think we're doing the right level of spend, we need to optimize our spend. We have some new brands that we've added on to our portfolio, like the non-alc portfolio like Fever-Tree. So we will spend the appropriate amount of marketing to really lean into some of those brand things.

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On the G&A front, I think there's a little bit of just, if you think about this year and next year, a little bit of recycling of things. I mean, this year, we're going to end up with low to no incentive for our teams. And therefore, there's a little bit of cycling. But as we think about capabilities and investment in capabilities, we always think about what is it doing for the business? Is it driving some sort of bottom line impact? Is it driving top line impact? There is definitely areas of technology, et cetera, we want to lean in on.

But in terms of – I know this probably is a question in the context of what does 2026 look like. But if you look at it, I mean, there will be – we're going to keep looking at ways to optimize things. But, nothing significant, I would say, is the way to think about it.

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

A

I mean, I think the other thing that I would add and, is true for this year as well, despite it being a difficult year, I mean, we're not going to cut our marketing to hit the bottom-line targets. We'll continue to put pressure behind the brands, our core brands in particular. Behind Peroni, as we've seen, Peroni's growing close to 30%, we're going to put continued pressure behind Fever-Tree. We'll have it for a full year. Next year, that brand still got a lot of awareness, gaps that we need to go after. And so, we'll put the right amount of pressure behind our brands.

And then as Rahul said, certainly capabilities is something that we focused on right now, whether it be in the AI range around insights and tools, et cetera, whether it be systems work with ERP systems, et cetera. It's really important for us to continue to stay maybe not ahead of the curve, but with the curve in terms of technology.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Turning to M&A, Rahul, since – on the third quarter call and since then, you've really sounded much more open about the role of M&A going forward, calling out portfolio gaps like spirits based RTDs, implying that transactions could be, larger than the former string of pearls approach. So, can you talk a bit about the strategic and financial criteria for evaluating potential M&A? And then, the question I get from people as well, how big theoretically are they willing to go? Is this going to be transformative or somewhere in between string of pearls and something much larger? And, relatedly, how central is this to your Beyond Beer aspirations?

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

A

Yeah. No, that's – so I understand the context of the question, right. So I break it out into two parts. So first is portfolio. What problem are we trying to solve in our portfolio? And if you look at our portfolio, we have a great beer portfolio. We talk about Core. We talk about Economy. We talk about our Above Premium. We're always going to look at beer, but, we have a good beer portfolio. And that has to be healthy and strong for our business to grow, period. That has to work. So a lot of energy and time is going to be around that piece.

Now, we also recognize where consumers are going and this is why you have the Beyond Beer approach, right? And in that, we need to solve some gaps in our portfolio. We're not talking of 10 different brands. We don't need 10 new brands. We have some gaps we need to fill like an RTD spirit, as you said, right? And flavor is a very volatile category. And we need to make sure we get an asset that makes sense to us and we can execute well on. So we will look at deploying capital in terms of gaps we have in our portfolio in a very measured way.

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I think second part of your question was in the context of capital deployment and size, right? So if you look at our business, our balance sheet is in a very healthy place. We are pretty strong free cash flow yield company. And we're going to keep disciplined about how we – what we've done over the last few years, our leverage ratio and the debt pay down is important criteria. We're going to keep making sure we have that as a key criteria. Returning money to shareholders through stable dividend and buyback is important.

And then thinking through capital investment and M&A, that's where it needs to make sure it has the right return, whether it's CapEx and investments we make in brewery Tracey talked about. Some of the investments we made in our brewery is really delivering bottom line benefits, right, whether it is flavor capabilities or variety packing, things like that. So, we will definitely look at an ROI approach to all that investment.

In terms of your question of size, I know we haven't shared any specific metrics around this, and I look forward to sharing that down the road. But, think of our business as, $11 plus billion revenue. We need to have brands that move the needle for us, right? If it's too small, it doesn't do anything. It just – it's a lot of energy, a lot of just institutional work to take care of them.

So it has to be brands that move the needle for us, it has to be in a way, it's disciplined for top and bottom line. And I emphasize that because it's easy to chase sometimes assets for top line. And I don't think we're going to be in that mode, right? We're going to be disciplined about making sure we can get top and bottom line. It needs to fit the portfolio piece I talked about. And it needs to fit how we execute these brands. And again, I'll use Fever-Tree as a great example, we know how to get it on trucks. We can probably drive. We are driving a bunch of synergies around that in terms of execution. But then we see a part in the next 12, 18 months of localizing production into the United States, right, instead of getting it from the UK. And that's going to drive a lot more on the bottom line.

So I know, folks, the way I would best characterize it, disciplined capital allocation, definitely need to fill some gaps in the portfolio, but we'll do that in a prudent way for both the top and bottom line, Eric, at this stage.

Eric A. Serotta
Analyst, Morgan Stanley & Co. LLC

Q

Great. So Tracey, to dig a bit deeper into capital allocation. So, you ended the third quarter net leverage in the low 2s, I think it was 2.3x versus your 2.5x target. You had, just under $900 million left on your five-year $2 billion repurchase authorization. So can you discuss the capital allocation priorities from here? Further buybacks, even beyond the existing authorization, how could that fit in with the aspirations around M&A in the portfolio?

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

A

Sure. I mean, where we are today is obviously in a much stronger position with our balance sheet. So, we had this target of – have our leverage below 2.5 times. And as you rightly say, we achieved it much earlier than we thought. But that gives us a lot of options around the rest of our capital allocation. And, so Rahul has spoken about M&A and investment in our business, we plan to keep that leverage ratio. We think it's a perfect spot for us, the rating that we've got. The investment grade is important to us. And so it's important for us to keep a strong balance sheet.

And then, other than the investment in M&A and our business, the third bucket is returning cash to shareholders. And as you rightly say, I mean, we've got this $2 billion share buyback program. We're well ahead of where we should be if you just divided it over five years. We have got $880 million left on that. We will continue to execute behind that share buyback. We do believe that our share is a compelling investment. And so we'll continue returning cash to shareholders through buying back our own shares, but also paying a dividend.

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And, when we reinstated our dividend during COVID, we did say that we want to do sustainably grow our dividend over time. And you can see over the last couple of years, that's exactly what we've done. And we want to make sure that that we do return cash to shareholders through a dividend. But certainly the share buyback has been a big program for us, and we will continue to execute the program that we've got in place.

Eric A. Serotta

Analyst, Morgan Stanley & Co. LLC

Q

Great. So to wrap up, I want to turn back to Rahul with a broader question, certainly bring unique perspective as new to the CEO role, but long-term executive with the company. So, what do you think is sort of the most misunderstood or underappreciated part about Molson Coors story today?

Rahul Goyal

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

A

Yeah, no, thanks for that. That's a good question. I would call again, go back into three – probably three ways to think about us as a business, right? One is our portfolio. And I know folks sometimes look at our portfolio and say it's too broad, it's too big. But all segments do matter. And then I would ask you to look at that from the context of the consumer, right? The top end of the consumer is driving it. I mean, premiumization has been an important factor in our category in alcohol. And we have so much runway that we can go after, right? Because we are underrepresented in that part of the consumer. Our Core brands and the Economy portfolio matters because it matters in all for all consumers, right?

So what excites me is the fact that we do have brands that matter in all segments. And obviously, our job becomes, how do we make sure our brands resonate with the right consumer in the right places, and the right channels? So the portfolio is an exciting part for us, right? Especially in the context of the consumer and where they are.

I wouldn't underestimate the capabilities and the infrastructure we have in the biggest profit pools. I go back to that. I mean, our big plans, our ability to get product to 500,000, 600,000 outlets twice a week, three times a week. I mean, this is a capability that I think is an important factor, right, in the business we are in. And you're seeing that play out with brands like Fever-Tree in terms of scaling them. So it is, I think, another exciting part of making sure we can leverage our infrastructure, leverage our capabilities to really drive scale.

And then the third aspect is I would call out is our free cash flow and our balance sheet, right? So if you look at our balance sheet, I think we've been pretty diligent about it and very disciplined about it. If you look at our free cash flow generation, that's a pretty strong story. So that's what I would leave you guys with is, our portfolio, our capabilities and our balance sheet and cash flow. I think those are the compelling reasons for Molson Coors.

Eric A. Serotta

Analyst, Morgan Stanley & Co. LLC

Great. Well, not quite Miller time yet, but I'm sure we're going to be enjoying some of your products at the reception tonight. So with that, I want to thank you...

Rahul Goyal

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

Thank you, Eric.

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Eric A. Serotta

Analyst, Morgan Stanley & Co. LLC

...Rahul and Tracey.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you.

Eric A. Serotta

Analyst, Morgan Stanley & Co. LLC

And...

Rahul Goyal

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

It is Miller time any time, by the way. So, that's the...

Eric A. Serotta

Analyst, Morgan Stanley & Co. LLC

Thank you.

Rahul Goyal

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

Thank you, Eric.

Eric A. Serotta

Analyst, Morgan Stanley & Co. LLC

Take care.

Rahul Goyal

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

Good luck.

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