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Molson Coors Beverage Co. (TAP)

Deutsche Bank Consumer Conference

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Steve Powers
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MANAGEMENT DISCUSSION SECTION

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Okay, everybody. Thank you. Welcome to our final session for the day. I'm thrilled to welcome back Molson Coors Beverage Company to the conference. As I know many of you know, Molson Coors is a leading global beer company, with nearly $12 billion in annual sales, built at its core behind brands such as Coors Light, Miller Lite, Molson Canadian and Carling, but it is increasingly moving far beyond what brands and beers roots in general, with growing ventures in spirits, flavored malt beverages and increasingly nonalcoholic beverages as well, as evidenced by the company's recent partnership with Fever-Tree.

With us today, I'm thrilled to welcome back Gavin Hattersley, President and Chief Executive Officer of the company; as well as Tracey Joubert, Chief Financial Officer. Tracey and Gavin, thank you and welcome back.

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

Thank you for having us.

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

Yeah. Good to be here.

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QUESTION AND ANSWER SECTION

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So, we're going to use the entirety of our time for Q&A and we'll just jump right in. And Gavin, I wanted to start with you. As many in the room probably know, you've recently announced your intention to retire at the end of the year. So, this will be your final time with us in Paris as CEO. So, we're sad to see you go, but excited for your future. I guess, as you reflect on your tenure, first as CEO of MillerCoors and now as Molson Coors since 2019, I guess, what would you say are the accomplishments you're most proud of, and what is your assessment of the company's positioning against future challenges and opportunities?

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

A

Yeah. Well, thanks for having us again, Steve. Look, I mean, the thing I am most proud of and it's – I mean, it's probably less maybe important to the investment community, but it's really important to us is our people and our culture. I mean, we've been around for hundreds of years, and so our culture have been developed over a long time, and I think we've really made some great strides over the last six years, and I think that has allowed us to weather innumerable challenges that we've had to weather over the last six years, some of which other companies have had to weather as well, but some have been unique to us. So, I think I leave a legacy of great people, strong bench, and a really cohesive and strong culture. So, I feel really good about that.

I feel really good about our balance sheet. I think our balance sheet, compared to what it looked like when Tracey and I took over Molson Coors six years ago, it is in a substantially better place. Our leverage is below 2.5 times. We've got a really strong capital allocation plan, which we've executed against, I think, very nicely. Our cash flow is substantially more than it was at that time. So, I feel really good about that and I think the legacy that we're – that I'm leaving for whoever succeeds me is – from a balance sheet point of view is strong.

We're making a lot more money, which is also pretty helpful. Our core brands are in a great place. I think, we proved a number of our skeptics wrong when we had the dislocation in the premium line space and we've retained almost all of the share that we gained, and we've certainly retained and actually gained a little bit more shelf space than we had got about a year ago, mostly through Coors Banquet, but Coors Light and Miller Lite have held their own quite nicely. So, I'm feeling really good about that.

We've launched the best innovation we've had in 25 years. It's a top 10 brand already for us, in Madrí, it's expanded into a few other countries. We've got Peroni, which we're just about to, and you will see it in the data that's out there, the public consumer data, the Nielsen IRI, how Peroni started to do what we said it was going to do, which is accelerate as we got all the stars aligned around that brand.

And then, of course, there's our move into the non-alc space. I think that the acquisition of Fever-Tree is exciting. This year is, obviously, a transition year for us as we bedded down in our network, but it plays a nice role in the intersection between alcohol and non-alcohol, and I think the opportunities through our distribution network are strong. So, I can probably go on for a bit longer, Steve, but I think those are the high points I'll cover off on.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

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Yeah. Well, as you can see from Gavin's answer, he's not done yet, he's still sprinting to the finish line. So, in that context, we zero-in on the here and now, and look to complete 2025 against just a difficult backdrop, what are you most focused on in terms of making sure you get right, executing on, over the balance of the year?

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

A

Yeah. So, I mean, you're right. It is a tougher economic environment, macroeconomic environment, consumer sentiment is tough. And so, we're really focusing in on the pillars of our strategy. So, we are focusing and making sure that we don't drop the ball from a share point of view on our core brands, that we keep the momentum of Coors Banquet going. We've talked for a while now about the potential behind Peroni, and we also talked about the fact that a lot of those plans we're going to hit in the second quarter and they are hitting now. And so, there's a lot of focus on Peroni inside our team to make sure that we execute appropriately, right.

I mean, we've now got all the stars aligned on that brand. It's being produced in the US. Our cost of goods sold is a lot less. Producing it in the US allows us to introduce SKUs that we haven't perhaps been able to utilize before. The significant margin expansion that we've got from onshoring, we're now able to invest through additional marketing which we're doing. And all of that is giving us a really great story to take to retail and we're seeing the benefit of that in substantially enhanced shelf space. And so, lot of focus going on that.

Obviously, bedding down and transitioning Fever-Tree is really important. I am excited about that brand. I think it really has the potential to accelerate our non-alc portfolio meaningfully. I think ZOA will benefit from that, because we're putting a lot of extra – couple hundred extra folks behind our non-alc activities, who won't only be focusing on Fever-Tree. They'll also be focusing on ZOA. So, I'm feeling really good about that. But now is the time for us not to drop the ball, because we are busy transitioning across to our – largely our beer distributor network, and it's really important that we keep the momentum of that brand growing.

North of the border, Canada, we've gained share for eight consecutive quarters, and making sure that we keep the foot on the accelerator up there with brands like Coors and Coors Light and Molson Canadian is seeing a resurgence. Miller Lite, which plays in the above-premium space up there, is doing really nicely, so making sure we don't drop any balls there either. So, I'm pretty much, Steve, doing what I've been doing my whole career, right. I'm going to run through the tape and then head off.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Because you were mentioning Fever-Tree, so maybe I'll ask about it now. Just what is the opportunity there that you see, I mean, for each brand individually, and then, as you say, the linkages between them and how they may sort of reinforce each other, especially with your distributor network?

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

A

Yeah. Well, I mean, just at the very bottom of the pyramid, I suppose, is that we've taken on roughly 0.5 million hectoliters, which is a meaningful size brand for our distributor network and it's profitable, and that doesn't often happen when you try something new. So, we've taken on an established brand, and I'm not saying it's going to be easier, but it will be easier than, for example, building a brand from the bottom-up, like we've had to do with ZOA. And with all the extra resourcing that we're going to put behind Fever-Tree, at the same time, they will be focusing on ZOA, they'll be focusing on Naked Life, which is the non-alcoholic cocktail that we've brought from Australia.

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So, we've now got critical mass in it, in that non-alc portfolio. Our distributors know we mean business there. Their reaction to the RFP was very strong. They are clearly excited about it based on their reaction. And I think the capability of our distribution network and the number of additional points of distribution that the – outlets that they're going to get to is going to be meaningful. It's also fairly underdeveloped, if at all, in the C-store chain, which when you couple that with our push into the higher alcohol space through singles, through Blue Moon, and Simply and Topo Chico, you layer on to that Fever-Tree, and I think we've got now an even better message to take to our C-store customers than we've ever had before, so.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. Very good. So, like a lot of companies in general and here at the conference, Molson Coors recalibrated lower 2025 financial targets alongside calendar 1Q results. Tracey, I'll have you weigh in here in a bit, but just I guess walk us back in time and kind of the major drivers of that revision. And as we sit here today, how do you see demand shaping up relative to your revised outlook?

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

A

Well, I mean, the singular big issue that we didn't have coming into this year is, we certainly didn't predict, I don't think anybody predicted that the industry was going to be as down as much as it was in the first quarter. We certainly didn't down five [indiscernible] (00:09:37) and as we looked at that and as we look into the future, we did see – and our guidance is predicated on – an improvement in that. And getting back to not sort of where it's been for the last three years on an annual basis, but certainly for the balance of the year, we saw it migrating back to the sort of down 3% level, which is where it's been for the last several years.

Why did we think that? Well, we had the data points in April, which showed that it had migrated back to 2%, 3%, and if you remember, Steve, we had a particularly tough summer last year from an industry point of view, and certainly that makes our comps, June, July, August a lot easier. And so, when we factor all of that in and settling down of the consumer environment and sentiment, that's what we baked into our ongoing forecast. Now, we saw that for April. We saw that for a couple of weeks in the beginning of May. And we've had some really tough industry numbers that have come out more recently.

I hate blaming the weather and don't yet have the data to blame the weather entirely. But I think based on the markets, which seem to have been most affected over Memorial Day, they were the ones that had really poor weather. It was rainy in the northeast and temperatures were 20 degrees lower than they were last year. And so, once we've got a more fulsome assessment of what happened at Memorial Day, I'll be able to share it with you. We don't have that yet, but that certainly is the emerging hypothesis is a lot of what happened over Memorial Day weekend was...

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Cold weather.

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

A

...was cold weather and wet.

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Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

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

A

Yeah.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Tracey, so building on what Gavin just ran us through, there are just a number of timing puts and takes this year in the outlook. Just general shipment versus depletion considerations. You've got cycling last year's contract brewing exit. We talked about ZOA and Fever-Tree layering on. Maybe just help us with the kind of level set on those factors and maybe walk us through the financial implications as we think about the balance of the year.

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

A

Okay. Yeah. A lot of puts and takes, as you say. So, if we look at the volume that's coming out from a contract brewing point of view, that's 1.9 million hectoliters that we had in our volume last year. And so, as we wound down the year, we had roughly in Q1 about 590,000 hectoliters that we were cycling. Q2 is a similar amount, about 570,000 hectoliters. And then, it sort of continues to decline to the balance of the year. Where – by the end of December, we would have cycled completely out of the contract brewing arrangement, which we're really happy with by the way, but it obviously is a headwind from a volume and a deleverage point of view.

If I go back to the top line, we do have Fever-Tree, which is incremental. The consolidation of ZOA now is incremental. It is offset by, if you recall, we sold our craft breweries. So, there's a little bit of a headwind from the craft breweries that's going to impact that. But we've got premiumization built into our top line. So, Gavin spoke about our plans around Peroni. We've got Madrí in the UK and now expanded into other markets that he mentioned. That's above-premium. Our Canada business is doing really well as well. Miller Lite up there is growing. Miller Lite is an above-premium brand up in Canada. So, there's a lot of portfolio shifting.

If you recall, we've got a medium-term target of getting to a third of our brand revenue coming from the above-premium side of the portfolio. And so, about half of that we expect to come from Beyond Beer, which is things like Fever-Tree, ZOA, flavors, et cetera. From a balance of the shipments, if you recall, we also were expecting a strike at our Fort Worth Brewery at the beginning of last year. And so, we built up inventory going into the summer. That was around 1.1 million hectoliters for Q1 and Q2. Q2 was about 350,000 hectoliters. So, as we go through the balance of this year, we expect our shipments and our retail to converge, mainly Q3 and Q4. So, comps will be easier.

And then, as we look at G&A, for example, our G&A, we're expecting that to be higher this year. With the transition of Fever-Tree, we had transition costs. We've mentioned about $30 million in Q1. There's another under $10 million coming in Q2. And then, marketing, we're going to continue to invest behind our brands, our core brands in particular, but also around some of the above-premium innovations, whether that be Fever-Tree, ZOA, it's getting incremental spend, Peroni, the fact that we're onshoring that, it frees up a lot of costs. And so, we invest in that behind the brand. And then, brands like Coors Banquet, which just continues to grow, even in bad weeks, we're seeing good growth from Coors Banquet, that will get incremental dollars as well. So, that's how we're kind of looking at the sort of balance of the year.

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Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Perfect. And as it relates to costs, you mentioned sort of the investment initiatives, but around – remind us where you stand on key cost considerations from an input perspective. I guess, any updated thoughts around how you're managing through tariff-related volatility and then the productivity on the offsetting side?

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

A

Yeah. So, from a COGS point of view, obviously, again, the deleverage of the contract brewing is a headwind. Premiumization is also a headwind on the COGS side, because generally, your above-premium brands come at a higher COGS...

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

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

A

...but comes at a higher margin as well. So, we're happy to take that cost. And then, from a commodity point of view, we've spoken about our extensive hedging program. And from a tariff point of view, the work that we've done over the last number of years, where we've actually diversified our supplier base and brought a lot of the sort of input materials onshore. So, we procure locally for local production in a local market, so that applies to the US and to Canada. We import very little. The only impact that we have from – I'd say, from a commodity/tariff point of view is the Midwest premium.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

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

A

I think everyone is really challenged and frustrated by the Midwest premium, because it sort of went through the roof as people just mentioned tariff, but there's no fundamental reason why it should behave that way. We do hedge the Midwest premium, but it's difficult and it's expensive, and it's very volatile. So, that's the one thing that I would say is a headwind from a cost point of view, but otherwise from a tariff point of view, I think we've isolated ourselves pretty well. And so, from an input cost point of view, we don't expect tariff to have a material impact. Now, that's input. Obviously, as it relates to consumer sentiment and inflation, and that's something that we're watching, and every day, it's a little bit different.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. Gavin, Tracey mentioned sort of the above-premium initiatives that the company has and premiumization within – I was going to say within your alcohol portfolio, but within your portfolio overall, has been a big theme. In the current environment, where we've heard a lot about value-seeking behavior amongst consumers, does the role of premiumization change at all in how you think about initiatives and allocate strategic capital?

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

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No, it doesn't. It's an important component of our overall strategic pillars, and arguably, even more important for us to really get a bigger share of our net sales revenue into the above-premium space. So, it doesn't change our focus or dilute our focus at all. From a consumer point of view, we've not seen much change in behavior certainly from a brand point of view. Folks are not trading down in any noticeable way from a brand point of view. Now, they might be making slightly different pack decisions, but certainly it's not changing our focus. Tracey mentioned it. We're going to push hard on Peroni, Miller Lite up in Canada, Madrí as it expands into additional markets, that'll get extra marketing in our EMEA&APAC division. All of our brands in the – in South Central America are in the above-premium space. So, we'll continue to push into that space. So, the short answer is no, Steve. It's not going to change our focus.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

How do you think about long-term category growth, maybe kind of parsing US versus ex-US or however you think about it, and has your thinking around those kind of normalized growth rates changed at all as we've seen fluctuations in more recent demand?

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

A

Well, the industry in the US and Canada have pretty much mirrored each other. They sometimes are a little different. But by and large, I would say that they are pretty similar, and they've been pretty similar with the exception of what happened in Q1 for several years now. And so, certainly, that's a world that we see. It is one of the drivers behind us wanting to make sure that we become a total beverage company and not just a pure-play beer company. And we've been on that journey now for several years, and I think we've laid a really nice platform and springboard for success as far as that's concerned.

We've seen the UK in particular has been more resilient and Central Eastern Europe has been more volatile. Last year, we had a pretty good year from an industry point of view. This year is a little tougher, and it's also the macro environment, a slightly different macro environment to what we're experiencing in the US. But still macro environment is influencing consumer confidence and driving more cautious behavior from a spend point of view.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Maybe to round out kind of the category dynamics and number one is, on-premise versus off-premise dynamics we're seeing evolve over the current – in the current environment, number one. And then, I guess, the mirror image of the question on premiumization, the core kind of power brands in your portfolio, is there appetite to lean more into those brands to meet consumers where they may be economically in the current environment?

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

A

Well, from an on- and off-premise point of view, on is performing slightly better than off, and that's been a somewhat consistent theme for a while now, and certainly, we're seeing that right now. In the last few years, it's been more normalization of folks going to bars and restaurants, post-COVID. But I think we're kind of through that normalization now and – but we're still seeing folk spend more time in bars and restaurants for sure.

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As far as our core portfolio is concerned, we're certainly going to keep the – our foot on the pedal there. If you look at how Canada has gained share for the last eight straight quarters, it's been on the back of Coors Light and Molson Canadian more recent resurgence. So, certainly, we're going to continue to invest and push what's working up there, which are those two brands. In our EMEA&APAC operation, brand like Ožujsko in Croatia is a big brand, that's strong, its market share within its space is doing very nicely, got more than half of the market. And so, we'll continue to lean in there. And we'll continue to focus on our value versus volume approach in the UK with Carling.

And then, if you cross back over to the US, as I said, Coors Light, Miller Lite, Coors Banquet gained a lot of shelf space over the last year and it's retained that shelf space by and large, and Coors Banquet, in fact, has actually gained additional shelf space. I think, the last number I saw was in the low-teens of additional shelf space. And that's helped us retain almost all of the market share that we gained a few years back.

Coors Banquet is a really interesting brand, right. It's been around for hundreds – I mean, it's been around for a long time. It goes back to the beginning. And it is a big brand and it's growing, even in the weeks where you see the industry performing particularly poorly, Coors Banquet is just chugging along, sometimes it's – most of the time, it's growing double-digits, in really poor industry weeks, it's still growing, but at a slightly slower pace. It's attracting new consumers to our portfolio, whether it's Latino consumers, whether it's younger legal drinking age consumers are coming in through Banquet.

They love the Western heritage. They love the heritage of the brand. They love the sort of original stubby bottles, which is unique in the marketplace. They love the marketing, whether that's Yellowstone or whether it's our program around firefighters and the first responders in the West. I think we've got a formula with Banquet which is working really well and we're gaining a lot of share from that. So, yes, we're going to continue to lean into our core brands, not because consumers are turning down to them. We haven't seen that, but consumers want them.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Yeah. Coors Banquet, I mean, it's a multi-decade growth story.

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

A

It is.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Is there – is it kind of lightning in a bottle, so to speak, in terms of – is it really unique? Are there things that you have done over the course of the last half decade on Coors Banquet that you can take as learnings and apply to other brands?

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

A

Well, it depends who you talk to in our organization, right. If you talk to the marketing folks, they'll say this is entirely marketing. But if you talk to the brewing folk, they will tell you it's a great high quality products. And if you talk to the sales folk, they'll tell you it's all the extra distribution we've got. And I'd say it's all three of those efforts, right. I mean, I remember a few years ago, in the sales conference, we actually put up a chart for our distributors

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where we showed them where distributors had Coors Light and Coors Banquet distribution and on display together, how both brands actually performed quite a lot better than those distributors that just had Coors Light.

And so, over the last couple of years, we've seen a narrowing of the gap on distribution between Coors Light and Coors Banquet, but there's still a long way to go. So, there's a lot of distribution upside for that brand. And it was one of those seminal moments in the distributor convention, where you can see and hear that something has landed and that landed with our distributor network, and they've been executing really well against that. So, Steve, it's a combination of all three of those things, getting more distribution on Coors Light and Miller Lite is a little hard, because they've got a lot of distribution, so – but closing that gap with Coors Banquet is a real opportunity for us.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. You talked and kind of alluded to a lot of change in the portfolio, a lot of reshaping in terms of the additions of ZOA and Fever-Tree, and vest of the craft portfolio, et cetera. Maybe a question for both of you in terms of both the strategic desire for more portfolio reshaping and also the financial capacity to undertake it.

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

A

Yeah. So, as I said, I think as we look at our long-term growth algorithm of getting to about a third of our net revenue to come from our above-premium portfolio, about half of that growth we expect to come from Beyond Beer. And part of that is expanding into spaces like we've done with Fever-Tree, which was a white space for us, but also something that our distributors are really excited about and get behind. So, we've said that, from an M&A point of view, we like the string of pearls approach. We think it works for us. The pearls, because of our ability to generate the significant free cash flow that we are able to generate and the fact that our balance sheet is healthy, it does give us a lot of optionality, but it also means that those pearls could be a little bit bigger, like the investment that we made in Fever-Tree. And so, we – yeah, I mean, we've got the capacity, we want to do things, though, properly, things that we – that does fill a white space, that does give us the right to win, but also that's scalable and something like Fever-Tree is the perfect example of that. So, yeah, we've got options and we certainly will look at things that fill all of those spaces that I just spoke about.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

And I know you get this question a lot, but how do you balance that consideration against the other capital allocation priorities? Obviously, investing in the business as we talked about, but you've got an ongoing buyback that's quite considerable, there is obviously the dividend that is very healthy. Is there a point at – can you do both or is there a point at which the M&A would take precedence over the share the buyback?

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

A

Yeah. So, I mean, we do have models that we run our capital allocation decisions through. But I would say that, again, with the strength of our balance sheet and free cash flow, we were able to do all of those things. So, if you just look at what we have done over the last number of years, we've invested in capabilities, whether that be in our breweries, whether that be through systems and tools, whether that be AI, for example, in our breweries, we actually use AI quite a bit or whether that be returning cash to shareholders. So, you mentioned our share buyback program. It's a $2 billion buyback over five years. In the first six quarters, we've already utilized 40% of it.

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So, we're well ahead of – if you just take a straight line where we would be and it's because we actually think our share is a good investment. And so, we're investing in our shares ourselves. But also part of that capital allocation is to sustainably grow our dividend and we have been doing that actually for the last number of years. So, again, I think depending on what gives our shareholders the highest return is where we're going to invest. But because we have the strong free cash flow, we do have the ability to flex, whether that be M&A or whether that be returning more cash to shareholders. So, yeah, I mean it depends.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay. Gavin alluded to it a little bit in his opening, but the – as did you just now, in terms of advances in organizational capabilities, across a wide spectrum of initiatives. Are there specific capabilities that you feel you want to highlight is something that you've made the most advanced on just in terms of like your own improvement or I guess, more importantly, are there places where you see true advantage versus the competitive set? And I guess, the other side of that is, capability – if you had one capability you'd want to further hone over the next year or two, what would it be?

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

A

Yeah. Okay. Let me start and jump in if I miss anything. So, I think we are really proud of the capabilities that we have invested in, whether it be in the commercial space or the supplier space. So, if you think about commercial, the capabilities that we built around our insights and analytics has driven us to make decisions and innovations like Happy Thursday, where we looked at a cohort of legal drinking age consumer. We've got a consumer group that looks at that. And so, we brought the bubble-free flavored malt beverage in Happy Thursday to market.

It also gave us insights around our C-store strategy, say that quickly. And so, it's things like where we're investing in higher ABV for our C-store single-serve. So, whether that be Blue Moon, Extra or Simply Bold, Topo Chico MAX, we haven't played in that space. We're under-indexed in C-stores. But what we've been able to glean from our insights is, this is a place where the consumer is looking for higher ABV, single-serve C-store quick run in, run out. And so, we've just launched those three brands in C-stores, and that's driven by our commercial insights.

And then, from a supply chain point of view, which mostly proud of, because it has driven returns and you can see that in our COGS per hectoliter, you can see that in the ability to mitigate some of the inflation that we're seeing is we've built two brand new automated efficient breweries in Canada. We've just completed the modernization of our Golden Brewery, which is our largest brewery. It's going to drive a lot of efficiencies, a lot of waste out of the system, we've built additional capacity from a brewing and packaging point of view in our UK business, we've built flavor capabilities which we didn't have before. So, now we can do all of those flavors Simply, Topo Chico, Happy Thursday in our breweries.

We've also built capability around variety packing, which is a lot of cost savings, because we save a lot on logistics. So, I would say, there's a number of things that we're really proud of. And again, I mean you're starting to see those investments come through, especially on the COGS line, where our COGS per hectoliter is not as high as what it has been over the last couple of years, driving a lot of efficiencies, a lot of cost savings. So, yeah, I don't if I've – I'm very proud of a lot of things, so.

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

A

Yeah. You've covered all of it.

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Steve Powers
Analyst, Deutsche Bank Securities, Inc.

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In terms of wish list, in terms of one or two, whether it's on the supply chain or in in-market commercial or consumer insight building, is there one place or one or two places you'd really like to kind of make the next quantum leap?

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

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No. I mean, I think we're all talking about AI. And so, we really have – we're really actually proud of some of the investments we've made around supply chain using AI. So, whether that be things like, we call it Smart SKU, what is the SKU we need in this market that's going to drive lower out of stocks or no out of stocks. But this distributor needs it in the market. So, we've done a lot of things around what are the smart SKUs that we need. AI has driven that. So, for me, using some of the AI capabilities...

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

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To solve for that. Yeah.

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

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Yeah.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

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Okay. We've got a couple of minutes left, Gavin. I want to – going back to today's operating conditions, there's a debate between the structural versus the cyclical, right. Obviously, skeptics around the industry challenges are more structural, whether rooted in demographic headwinds or health and wellness headwinds or what have you, and obviously, the more optimistic investors are on the cyclical side. Where do you stand in that and how do you separate the cyclical from any kind of structural considerations?

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

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Well, I think very clearly, Steve, I'm on the cyclical side. I think the macro economic environment is uncertain wherever you are in the world, right, and perhaps more so in some of the bigger markets in which we operate, and that is a macro situation. That will change and it will improve, and I can't tell you when exactly, but I'm certainly on the cyclical side.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

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Okay. So, in the last few minutes, so Gavin, final question. If your successor was in the room with us today, what would be your key messages or words of advice for him or her? What's critical that they get right to best position the company for profitable growth throughout their coming tenure?

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

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I could make some mischief now, couldn't I but I won't. Look, I think I'd start by saying that our board is supportive of our strategy. So, I think that's an important point. I think that my successor needs to treat our culture with care, because I think it's a strong culture and I think it's a good culture. And I think that there's a reason why some of the folk who choose to partner with us do, and that is because of our culture, because of our people. And I think to Fever-Tree and I think to Yuengling, and we've got partnerships with lot of folks, some of them would surprise you. But I think that's a strength of ours and I think it's because of our people and our culture. So, I think that would be something I would take care with, because it's been built-up over a long time, not just in the last six years.

And then, I think, obviously, Tracey talked extensively about the balance sheet and the strength of it. We generate a lot of cash and I think we've been really smart about how we've allocated that cash. We obviously believe that we're undervalued at the current price. And so, as Tracey said, we've leaned into share buybacks. And I think we've got a double-digit return, cash return in our business. I think we're one of the best out there, but it does give my successor optionality. I think we've proven particularly good at doing a string of pearls M&A, and if I was still around, I'd be continuing that process, because I think we've laid a nice foundation. And then, obviously, any CEO is going to put their own stamp on an organization. Every CEO does, and I'm sure the next CEO will as well.

But I think the foundations of our strategy are laid quite nicely and they can lean hard into some of those areas where perhaps we haven't been as successful. When you look at perhaps above-premium in the US market specifically, they could lean harder in there. I think we've got a really good brand with Peroni in the beer space and Fever-Tree in the non-beer space to really go after. So, yeah, I think there's a lot of opportunity there and I feel good about our long-term growth algorithm. I feel good about it partly, because of what Tracey said, right, as we're removing quite a few headwinds that we're experiencing this year from contract brewing and getting out of the craft space. So, I look forward to seeing him or hers progress.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Great. I thought you were going to say make sure you always come to Paris in June. That would have been a good one.

Gavin D. K. Hattersley

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

Well, yes. This is a very good one to come to. So, yes, I'll give them that advice.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

I think that's a great place to end it. We're out of time. Thank you, Gavin. Thank you, Tracey.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Steve.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Thank you all for joining us. Appreciate it.

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Gavin D. K. Hattersley

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

Thank you.

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