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Molson Coors Beverage Co. (TAP)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Molson Coors Beverage Company and second quarter fiscal year 2021 earnings conference calls. You can find related slides on the Investor Relations page of the Molson Coors website.

Our speakers today are Gavin Hattersley, President and Chief Executive Officer; and Tracey Joubert, Chief Financial Officer. With that, I'll hand it even to Greg Tierney, Vice President of FP&A and Investor Relations.

Greg Tierney
Vice President-FP&A and Investor Relations, Molson Coors Beverage Co.

Thank you, operator, and hello, everyone. Following prepared remarks from Gavin and Tracey, we will take your questions.

Please limit yourself to one question. And if you have more than one question, please ask the most pressing question first and then reenter the queue for follow-up. If you have technical questions on the quarter, please take them up with our IR team in the days and weeks to follow.

Now today's discussion includes forward-looking statements. And actual results or trends could differ materially from our forecast. For more information, please refer to the risk factors discussed in our most recent filings with the SEC. We assume no obligation to update forward-looking statements.

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GAAP reconciliations for any non-US GAAP measures are included in our news release. And also, unless otherwise indicated, all financial results the company discusses are versus the comparable prior year period and in US dollars.

And with that, over to you, Gavin.

Gavin D. K. Hattersley

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

Thanks, Greg. Good morning and thank you, everybody, for joining us today.

Nearly two years ago, we laid out the Molson Coors Revitalization Plan, a multi-year strategy to deliver the sustainable top line growth that has eluded our business for many years while at the same time delivering sustainable bottom line growth. Under the plan, we have streamlined the company and we're reinvesting those savings to build on the strength of our iconic core, aggressively grow our above premium portfolio, expand beyond the beer aisle, enhance our capabilities and support our people and communities.

We had a few doubters then and we had some unexpected challenges since from a global pandemic to severe Texas winter storms to a cyber attack on our company. But nearly two years later, we can say to those doubters with confidence that Molson Coors is on the path to deliver sustainable top and bottom line growth.

Our performance this quarter speaks for itself. I say that because for nearly two years we talked a lot about the outputs of our revitalization plan, new investments, new partnerships, new product launches and new campaigns. But today, we're able to start talking meaningfully about outcomes from the revitalization plan. And that's an important shift.

In the second quarter, despite ongoing pandemic restrictions, we delivered the most top line growth of any quarter in over a decade. And we nearly achieved 2019 net sales revenue levels on a constant currency basis despite those pandemic restrictions during this quarter. I'm incredibly pleased with this progress because it's a strong indicator of what is yet to come through our revitalization plan.

Our progress was primarily driven by three things. First it was driven by the fact that we delivered the best brand mix in the United States since the inception of MillerCoors joint venture in 2008. This significant premiumization of our portfolio was led by the strong growth of our US hard seltzers where we doubled our share of the US hard seltzer segment in the second quarter. We took over as the global brewer with the fastest growing US seltzer portfolio. And we recently passed another major brewer and we're now fourth in total US seltzer share as we continue to move towards our goal of achieving a 10 share in the US by year-end. Those are outcomes.

We're also continuing to see strong traction with our Vizzy innovation. Vizzy's fast-turning new lemonade variety pack helped the Vizzy brand gain almost a full point of US share in the second quarter. And we just added another new package to that family with Vizzy Watermelon which has been a hit with retailers thus far. Topo Chico Hard Seltzer continues to exceed our expectations in the 16 markets in which it's sold in the US. The demand has far outpaced our original plans for the brand. And with supply improving, we are now positioned to be more aggressive in marketing this brand. That is an outcome.

Outside of the US, our Canadian hard seltzer portfolio continues to perform very well. The combinations of Vizzy and Coors Hard Seltzer has earned more than a 50 share of the hard seltzer category with the largest beer retailer in the country. Vizzy specifically has earned the number one spot in the on-premise in key regions like

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Ontario. And we're looking forward to fuel its momentum with Vizzy Lemonade which launched in Canada just a few weeks ago. That's an outcome.

In Europe, Three Fold in the UK and Wai Moment in Central and Eastern Europe continued to build distribution and consumer awareness with a strong mix of brand advertising. The category still is in the early stage. But we are well positioned to win share and develop our portfolio as popularity around hard seltzers continues to grow. And while our fast-growing hard seltzer portfolio is driving our premiumization, it's not alone. Madri continues to exceed expectations in the UK on-premise with unprecedented consumer demand. And Praha from the Staropramen stable of brands is performing ahead of expectations in the Central and Eastern European markets, beating initial estimates by more than 50%.

Our Latin America business where our global brands primarily operate in the above premium price segment has exceeded expectations given the coronavirus pandemic throughout the region. Collectively, for the first half of 2021, the region is exceeding brand volume levels for the comparable 2019 period despite continued government-issued pandemic restrictions. For example, our Puerto Rican operations which had been in long-term decline are currently growing. Those are outcomes.

In Canada, our Six Pints craft division is growing absolute volume despite its reliance on the on-premise. In the US, Blue Moon LightSky was the number one new beer item in 2020 and has grown double digits this year building off its strong base, while Leinenkugel's Summer Shandy brand volume is up 10% year-to-date. Those are outcomes. And in just a few weeks, the Yuengling joint venture will launch in the State of Texas where distributor, retailer and customer interest has been incredibly high. Product shipments begin next week and are scheduled to hit retail by August 23.

The other factor that drove the best brand mix in more than a decade is the rationalization of the long, long tail of our economy portfolio in the US. As we have discussed, in recent months in the US, we paused production of a number of smaller low-margin slow-moving economy brands and SKUs. This allowed us to improve our brewing efficiency and stabilize inventories of our core brands. And it also premiumized our portfolio and improved our margins. Now we intend to maintain that higher level of premiumization and service.

To offer an extensive analysis of our business, we are meaningfully streamlining and premiumizing our US portfolio, discontinuing around 100 SKUs including the elimination of 11 economy brands altogether. This will improve supply chain flexibility for our more profitable priority brands, enhance our innovation efforts, enable us to better focus resources and ensure dependable and on-time shipments to our distributors.

Let's be clear. While economy brands have typically not been a focus of the investment community, distributors who sell brands like Magnum and Mickey's Ice are going to feel it when they're discontinued. So our local sales teams are partnering with distributors and retailers on a market-by-market basis on exit plans and to identify swaps that make sense.

So the headline is simple. Premiumization is here to stay at Molson Coors. We're going to invest bigger behind our fast-growing global hard seltzer portfolio. And we're going to permanently streamline our smaller portfolio of legacy brands. We're excited about the progress we're making and we're not about to stop now.

Our top line growth was also driven by the strength of our core brands and the pace of the return to the on-premise. Coors Light and Miller Light again grew share of the US premium light segment. With on-premise accounts reopening in a big way across the US, the brands were at 97% of their total 2019 STR volume in the second quarter. Coors Light specifically achieved its best half-year share trend in four years and its US STRs rose

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by 1.7% in the second quarter. At the same time, Miller Light grew 3.2% in the US in the quarter. In Canada, Coors Light has grown share with our largest retail customer for four straight quarters.

Our top line growth was also aided by the investments we have made in our beyond beer initiatives. Standing here at the end of July, ZOA has already far surpassed our expectations for the entire year. And its co-owner, Dwayne Johnson, continues to amplify the product across his massive social media presence as well as through a new TV campaign that debuted during the Olympics this month.

The RTD coffee market is estimated at $4.3 billion in 2021. And La Colombe was ranked number one in the above premium category. We're excited about the progress we are making and continue to have success with distribution to large national and regional retailers in both the drug and convenience store channels.

Truss Canada, our joint venture with HEXO, has grown to more than a 50 share of the Canadian cannabis beverage industry and now holds seven of the top 10 SKUs in the country. And in the US, after starting in the Denver metro area, Truss US has expanded distribution to other distributors and independent retailers across the state, a strong vote of confidence in the joint venture's plan and its brands.

As I said earlier, the results from the second quarter demonstrate that the revitalization plan is starting to pay off. So we're going to continue investing in our business, in our people and in our communities to continue driving the results we're starting to see. You saw that in the last quarter as we announced two new projects to increase our global hard seltzer production capacity.

In Canada, we announced plans to quadruple our in-house hard seltzer production capacity. And in the UK, we announced plans to add a new hard seltzer canning line in our Burton upon Trent brewery while also upgrading our beer and cider packaging facilities to drive efficiencies. Those two investments follow a similar effort last year to increase our hard seltzer production capacity fivefold in the US. These investments will have long-lasting benefits as we bring more production in-house and ultimately improve our profit margin.

But the investments in our business are not stopping there. Finally, after more than a year of pandemic-related challenges, we're going to be able to more fully invest behind our brands. Now, what does that mean? Well, sticking in the UK for a moment, Three Fold hard seltzer is backed by the biggest brand investment Molson Coors has ever made into a new UK category. And you can expect to see a boost in our marketing spending over the second half of the year as well. That's because markets are opening back up. Our local alliances are reactivating for the first time in over a year. And our inventory will have recovered to a point that it makes sense to more fully invest behind the brand marketing.

Now as important as that is, our success or failure as a company isn't entirely defined by our top line growth. It's also determined in part by how well we support our approximately 17,000 employees and support our hometown communities all around the world. That's why we directly engaged our North American employees in what we call Project Justice, an effort we started last summer and have continued in 2021. Through this initiative, we are supporting 33 organizations across the US and Canada that are working to create a more just and inclusive world.

That's also why we're expanding our scholarship program for US college students of color who are pursuing careers in fermentation and brewing sciences as we work to bring more diverse voices to our industry. And that's why we're looking within our organization to improve the representation of women and people of color across the biggest part of our business.

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We also just released our annual ESG report called Our Imprint with a refresh strategy that focuses on two key pillars, people and planet. From eliminating plastic rings in the UK to saving over 100 million gallons of water annually through our Golden brewery modernization project to the significant work we are doing to support our people, we've made great progress against our goals. And stay tuned as we continue our ESG journey.

We've had our share of challenges over the last several years, but that is changing. And today, the signs all say the same thing. Molson Coors' future is bright and the revitalization plan is succeeding. We're deleveraging our business. We've reinstated our dividend. We're thinking more consciously how we best support our people and the communities in which we operate. We're investing behind our brands. We're reshaping our portfolio and we're expanding into new spaces.

Nearly two years into our revitalization plan, our results are improving. We're going to put our foot even more firmly on the gas pedal as we drive towards our sustainable top and bottom line growth initiative for this business. Tracey?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin, and hello, everyone. We posted a strong second quarter which exceeded expectations. We continued to make real progress executing our revitalization plan and we are starting to see the results in our operating performance. As Gavin noted, we continued to premiumize our brands and strengthen our core business. And our improved financial flexibility has enabled us to invest in our business while continuing to delever our balance sheet and to reinstate a dividend.

Now, let me take you through our quarterly results in more detail and provide an update on our outlook. Consolidated net sales revenue increased 13.7% in constant currency, delivering 98% of second quarter 2019 levels despite continuing to operate with varying degrees of on-premise restrictions. Consolidated financial volumes improved 5.5%, outpacing brand volume growth of 3.1% driven by higher Europe volumes and favorable US domestic shipments.

Top line performance benefited from on-premise reopenings in the quarter for most of our major markets as well as strong global net pricing, positive channel mix and historic favorable brand mix levels in the US as we continued to premiumize our portfolio. Net sales per hectoliter on a brand volume basis increased 5% in constant currency driven by pricing growth, coupled with positive brand and channel mix, partially offset by geographic mix given the strong growth in Europe and Latin America.

This top line growth was somewhat offset by inflationary pressures which impacted most consumer product companies as well as increased marketing investments as we continued to execute our revitalization plan. Underlying costs per hectoliter increased 8% on a constant currency basis driven by cost inflation including higher freight and packaging costs. However, with robust hedging and cost savings programs, we had been able to significantly mitigate much of the inflationary pressures.

MG&A in the quarter increased 25.3% on a constant currency basis as we cycled timing shifts and targeted reductions to marketing spend in the prior-year period due to the coronavirus pandemic. As planned, we significantly increased marketing investments in the quarter putting strong commercial pressure behind our key innovations and core brands. Underlying EBITDA decreased 1.3% on a constant currency basis but increased compared to 2019 second quarter levels.

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Underlying free cash flow was [audio gap] (00:16:45) $558.2 million for the first half of the year, a decrease of $238.2 million from the prior-year period. This decrease was wholly driven by lapping roughly $500 million in benefits in the prior year related to tax deferrals due to governmental programs and was partially offset by favorable working capital and lower capital spend.

Capital expenditures paid were $212 million for the first half of the year as we continued to invest behind capability programs such as our previously announced Golden brewery modernization project and our new Montreal brewery. Capital expenditures were lower in the first half of the year compared to the prior year primarily due to project timing.

Now let's look at our results by business units. In North America, the on-premise channel accounted for approximately 13% of our net sales revenue in the quarter compared to approximately 16% in the same period in 2019. In North America, on-premise reopenings varied by market. In the US, our largest market, we continued to see progressive reopenings during the quarter and attained over 80% of 2019 levels as of quarter-end.

In Latin America, restrictions continued to ease while in Canada significant restrictions continued throughout the quarter with on-premise volumes about one quarter of pre-pandemic levels. North America net sales revenue was up 8.3% in constant currency, driven by strong net pricing growth, positive brand mix in the US, favorable US shipment timings and higher Latin America volumes. Of note, US net sales revenue exceeded the second quarter 2019 levels.

In the US, domestic shipment volumes increased 1.2% outpacing brand volume declines of 4% as we focused on rebuilding inventory following the first quarter supply disruptions. The brand volume declines were entirely due to economy which was down double digits as we deprioritized certain noncore SKUs. Our above premium portfolio was up double digits and our premium brands were up low single digits. In fact, our US above premium brand volumes reached a record high portion of our portfolio compared to any prior quarter since the creation of the MillerCoors joint venture in 2008.

Canada brand volumes declined 5.1% while Latin America brand volumes experienced triple digit growth driven by strong core brand performance. Net sales per hectoliter on a brand volume basis increased 4.7% in constant currency with pricing growth delivered across all geographies. The US increased 6.9% driven by net pricing and historic levels of positive brand mix.

While the intentioned decline in economy was a contributor, about half of this record mix performance was due to growth in above premium led by innovation brands including Vizzy, Topo Chico Hard Seltzer and ZOA. These positive vectors were partially offset by negative geographic mix resulting from the restricted trading environment in the higher revenue Canadian business and strong growth in Latin America.

Underlying costs per hectoliter increased 8.5% driven by inflation, including higher consultation and packaging materials costs and mixed impacts from premiumization. Underlying MG&A increased 24.2% due to higher marketing investments. We increased marketing investment behind core innovation brands and we increased media spending behind our iconic core brands, Coors Light and Miller Light.

Our US media spend approached 2019 levels while local tactical spend was somewhat constrained due to on-premise restrictions which eased throughout the quarter. North America underlying EBITDA decreased 10.7% in constant currency as higher gross profit was more than offset by higher planned MG&A.

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Europe net sales revenue was up 52.3% in constant currency driven by volume increases and positive channel, geographic and brand mix due to on-premise progressive reopenings, most meaningfully in the UK, given the reduced on-premise restrictions compared to nearly full lockdowns in the prior-year quarter. Above premium brand volumes reached a record high portion of our Europe portfolio. Europe financial volumes increased 17.8% and brand volumes increased 15.4% driven by significant increase in UK on-premise volume.

Net sales per hectoliter on a brand volume basis increased 16.6% driven by favorable channel, geographic and brand mix particularly from our higher margin on-premise focused UK business as well as positive pricing. Underlying EBITDA increased 189% in constant currency driven by gross margin impacts of higher volume and favorable channel, geographic and brand mix as a result of gradual on-premise reopenings partially offset by higher MG&A spend.

Turning to the balance sheet. As of June 30, 2021, we had lowered our net debt to underlying EBITDA ratio to 3.35 times and reduced our net debt to $6.9 billion, down from 3.5 times and $7.5 billion respectively as of December 31, 2020. We ended the second quarter with strong borrowing capacity with no outstanding balance on our $1.5 billion US credit facility.

Turning to our financial outlook. We are again reaffirming our 2021 annual guidance originally provided on February 11, 2021. While we are certainly in a better place than we were a year ago, it bears reminding that uncertainty as it pertains to the coronavirus and its variants remains to varying degrees by market.

Now, I'll provide some underlying expectations to provide some additional context for the balance of the year. We expect to deliver mid-single digit net sales revenue growth for the full year on a constant currency basis. Building off the strong shipment growth in the US in the second quarter, we continue to work aggressively to build inventories to more optimal levels. In the US, we expect on-premise trends to continue to improve as we lap restrictions in the prior-year period. In Canada, we are seeing gradual on-premise reopenings varying by province, which should provide positive channel mix.

In Europe, the UK should benefit from their full on-premise reopening in July 19. However, the comparison is more difficult than it was for the second quarter given that on-premise was largely open for the full third quarter of 2020. Our guidance also anticipates continued strength in our above premium portfolio, particularly hard seltzers.

Also, we expect continued solid progress against our previously discussed emerging growth three-year revenue goal of $1 billion against which we are tracking ahead of plan. We continue to anticipate underlying EBITDA to be roughly flat compared to 2020 as top line growth is expected to be offset by continued cost inflationary headwinds but more significantly from increased investments to deliver against our revitalization plan.

We intend to increase marketing investments to build on the strength of our core brands and support successful innovations. As a result, we expect significant year-on-year increases in marketing investments over the balance of the year and most notably in the third quarter. We expect third quarter marketing investments to be higher than the second quarter of 2021 and also higher than the third quarter of 2019 as we continue to ramp up supply following the disruptions in the first quarter.

Obviously, this will have an impact on our bottom line particularly in the third quarter. But this will strengthen the future of our brands. Also, as a reminder, in 2020, our working capital benefits us from the deferral of approximately $130 million in tax payments from various government-sponsored payment deferral programs related to the coronavirus pandemic. We currently anticipate the majority to be paid this year as they become due.

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And moving to capital allocation. We continue to prioritize investing in our business to drive top line growth and efficiencies, reducing debt and returning cash to shareholders. First, we plan to continue to prudently invest in brewery modernization and production capacity and capabilities to support new innovations and growth initiatives, improve efficiencies and advance towards our sustainability goals.

Second, we have a strong desire to maintain and in time upgrade our investment-grade rating. As such, we expect to continue to pay down debt and reaffirm our target net debt to underlying EBITDA ratio to be approximately 3.25 times by the end of 2021 and below 3 times by the end of 2022. Demonstrating our commitment to this goal, on July 15, we announced that we had repaid in full the $1 billion 2.1% senior notes that were maturing that day using a combination of commercial paper and cash on hand.

And third and also as announced on July 15, our board of directors determined to reinstate a quarterly dividend on our Class A and Class B common shares and declared a quarterly dividend of $0.34 per share. The board made the decision to reinstate a dividend at a level that they believe is sustainable and gives room for future increases as business performance improves.

Now, we are proud of our operational performance in the quarter which underscores successful execution against our revitalization plan. We are excited about the future of Molson Coors as we drive towards our goal of long-term sustainable revenue and underlying EBITDA growth.

And with that, we look forward to taking your questions. Operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Rob Ottenstein, Evercore.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great and thank you very much. Gavin, I'm wondering if you could talk a little bit about what you've learned so far about the hard seltzer market. Clearly, it seems that there are some issues with beer branded trademarks. But at the same time, you've got this proliferation of 700 brands or more that I understand there is competition from various ready-to-drinks. So love to get your thoughts on that.

And then also, love to understand why you're not using the Vizzy trademark more in Europe and the UK and that you feel that you need to have different sorts of trademarks there. So a lot of questions. Just really love to get your thoughts on what you've learned about hard seltzers and what's going on in that segment. Thank you.

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

A

Thanks, Robert, and good morning. Look, we've always said that the growth rates weren't going to continue at the elevated levels that they were and that others might have seen. So, Robert, it's really no surprise to us that this rate of growth slowed because the category was [ph] cycling (00:28:55) last year's huge comps.

We've said in the past that seltzers were a beneficiary of the on-premise shutdown because it had such distribution exposure in the off-premise. And so as the on-premise has reopened, there's less distribution there.

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And so this is not a surprise to us. I think we've been saying this for almost a year. We've also been saying for a while, even if it's growing at 10%, 20%, 40%, there really isn't anything else in the beer space that's growing that quickly. So it's good for the beer category and it's good for us.

In North America, in the US, we've got two very clear and differentiated winners from our point of view and we plan to continue our focus on Vizzy and Topo Chico Hard Seltzer. Now, you referred to Coors Seltzer, Rob. And I would say to you that Coors Seltzer up in Canada is actually doing really, really well. It's already achieved double-digit share in some retailers. And between Vizzy and Coors Seltzer, it's probably the most successful product launches that we've had for our company in five years up in Canada.

We do believe that there will be a shake-out in the near future as many brands struggle to succeed in the crowded space. And while Vizzy and Topo Chico Hard Seltzer continued to accelerate, Coors Hard Seltzer wasn't. And so that's why we made the decision in the US to discontinue Coors Seltzer and commit our energy, our resources and materials supply we've got in our shelf space to Vizzy and Topo Chico. Of course, it's going to stay in Canada because it's doing, as I said, really well. The market dynamics are different and the brand has performed well.

In Europe, it's exhibiting in the UK and Central and Eastern Europe some of the same trends in the early days as the US did. And we've obviously tested all of our options from a brand point of view and the early read was that Three Fold was the right brand to go with and it's landed very well. We're building capacity there and I think we're well-positioned in the UK to be a strong player if it takes off like it did in the US.

And the same applies to Central and Eastern Europe. Wai Moment was the best brand, resonated really well with the consumers there. The Central and Eastern European team did a fantastic job from an execution point of view. So the execution was really good. And we actually have first-mover advantage in Central and Eastern Europe. So we feel very good about our leading position in Central and Eastern Europe with that brand as well. I think I hit all your questions, Rob. But if I didn't, I'm happy to take a follow-up from you.

Robert Ottenstein
Analyst, Evercore Group LLC
Q

And thank you for that detail. The only other one was how do you look at the interaction between hard seltzers and ready-to-drinks? Though some observers say that there's really not much interaction, it's the same occasion; I'm not sure I believe that 100%. But love to get your thoughts on the various ready-to-drink concoctions that are coming up and how you intend to play in that space going forward as well. I know you're doing a few things there. Thank you.

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

Sure, Rob. Yeah, RTD beverages are emerging and emerging in fast-growing segments. In fact, RTD sales already outpace spirits and that gap is only going to likely widen in the future. And competing in this space is a natural for companies like ourselves. We've got experience packaging beverages in 12-ounce cans and bottles and working with our distributor partners to get those products out there. So we look forward to competing in this category with Proof Point. And we've got Superbird as well, which is the top end of that, which we launched earlier this year. And we have other offerings that we believe will appeal to consumers in our innovation pipeline.

Robert Ottenstein
Analyst, Evercore Group LLC
Q

And how much interaction do you see in these ready-to-drink products with hard seltzers or is it too early to say?

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

I think it's too early to say, Rob. Obviously, there is some interaction. It's interesting. We've been asked this question as it relates to the beer category. And more of seltzers' volume and growth is coming from outside of the beer category than is coming from inside the beer category. You know that our data would suggest that. I've seen our competitors say the same thing. And certainly, it's been very positive from an overall beer category, beer segment point of view.

Robert Ottenstein
Analyst, Evercore Group LLC
Q

Terrific. Thank you very much.

Operator: Our first question comes from Bill Kirk with MKM Partners.

William Kirk
Analyst, MKM Partners LLC
Q

Hey. Thank you for taking the question. So you talked a bit about the rationale to streamline economy brands. But it also looks like there's some discontinuing of some SKUs for pack sizes on brands like Coors Light and Miller Light. So can you talk about the decision, I guess, to streamline pack sizes as it relates to your efficiency efforts?

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

Yeah. Thanks, Bill. And good morning to you as well. Look, we did a thorough review of all of our SKUs and brands. I would say the majority of the SKU and brand – or certainly all the brand reductions and the majority of the SKU reductions are in our economy space. We did identify a few SKUs which were slow-moving and which could be substituted with other more profitable SKUs that would make us more effective. And so there would have been just a few outside of the economy space that we rationalized. The vast majority of it, Bill, is in the economy space.

William Kirk
Analyst, MKM Partners LLC
Q

Got it. And, Tracey, as a follow-up, I think you said that US brand volume declines were entirely economy. Does that mean excluding the discontinued economy brands that US brand volume's positive? Or do the remaining economy brands still drag that number into the negative?

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

No. So the four SKUs are just recent. And so I would say that it's really the entire sort of economy portfolio that is driving that down.

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

And, Bill, Miller Light and Coors Light in the second quarter, as I said I think in my prepared remarks, grew. I don't think I've been able to say that that often over the last sort of 15 years or so. And our above premium portfolio did

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very well as well with the Blue Moon franchise coming back stronger, our craft brands coming back. And I was very pleased with our seltzer performance.

William Kirk
Analyst, MKM Partners LLC
Q

Thank you. Appreciate it, guys.

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

Thanks, Bill.

Operator: Our first question comes from Lauren Lieberman, Barclays.

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

Great, thanks. Good morning. I'd love to talk a little bit more about on-premise. And, number one, just thinking about brand strategy and portfolio. So, first, I was curious about hard seltzer, the degree to which you're trying to expand presence of your brands in on-premise. I think that you had mentioned Vizzy as an on-premise play in Canada. If I got that wrong, I apologize. But I was curious if that was in the thought process for the US.

And then also just the, I think, industry-wide discussion of big brands gaining more presence, share cap handles and so on as on-premise reopens. And I was curious the degree to which you're starting to see that or been positioning for that to be the case as reopening continues. Thanks.

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

Yeah. Thanks, Lauren. Look, yes, during the pandemic, we did see increased demand for large trusted brands. And this is particularly true in the on-premise. Many on-premise owners are sticking to faster moving brands. And this obviously benefits brands like Miller Light and Coors Light in particular for us. And we are seeing that trend stick as we settle into the sort of new normal. And as I said earlier, with Miller Light and Coors Light, we did grow segment share for the 27th quarter.

We're also seeing growth in our above premium portfolio. For example, Blue Moon in the US is up nearly 15% in the quarter. Peroni is up nearly 35%. And it has provided us an outstanding opportunity to sample our newer offerings like Blue Moon LightSky and Vizzy and Topo Chico Hard Seltzer, which we actually missed that opportunity last year. So certainly, I wouldn't say it's just Vizzy that's going on-premise. I would say it's both Vizzy and Topo Chico Hard Seltzer. Topo Chico, as well as it's doing, it's still in fairly limited number of markets, in less than half of the states in the US. And in those states, the desire for it to be on-premise has been very good.

Canada, obviously, a little too early to say because the restrictions there have dragged on a little longer than they did in the United States. So too soon to tell how the Canadian on-premise is going to open up. In Europe, it's been very pleasing. We, as you know, significantly over-indexed to the on-premise. So the on-premise recovery that's taking place in Europe has been very positive for us. And in fact, in July, we've seen the on-premise business in the UK start to approach 2019 levels and hold there. So that has been very encouraging for us.

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Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

And just to follow-up to just clarify. I think it's within on-premise that's opened, do you believe that you're gaining share within those outlets because of any degree of greater distribution or relative presence within the channel?

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

A

In the US, the answer is yes. In the UK, data lags a little bit, so I'm not ready to call that yet. So we have a hypothesis that we are. But I don't have data yet to support that. In Canada, obviously, the reopening is not in a place where we can determine that yet. But in our biggest market, the answer to that is yes, Lauren.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay, great. And then the plan is to bring Vizzy and Topo Chico Hard Seltzer on premise in the US and you have the capacity to do that in your plans for this year? Or is that more of a looking into 2022?

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

A

Certainly, we have the capacity with Vizzy. We've been able to meet all the demand that our distributors have had with or for Vizzy really since the beginning of the year. Topo Chico, obviously, is more challenging from a supply point of view. It continues to perform extremely well. It's only got one SKU. It's got distribution in only 16 markets. And supply continues to be a little tight, but our production is improving. And that is going to allow us to push distribution which would include the on-premise. And it allows us to start turning our marketing campaign on behind Topo Chico as well, Lauren. So I guess that's a convoluted way of saying yes.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

All right, great. Thank you so much.

Operator: Next question, Steve Powers, Deutsche Bank.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you very much. A couple of questions centered on brand volume dynamics. In Europe, if my numbers are correct, it looks like you're at about 91% of 2019 in the quarter which is up from the mid-70s last quarter, which is great. And I guess just as you think about the back half, do you think you kind of hold steady at that mid-90s index level or you think your plans envision improvement, number one? And as we pivot to North America, you're also at 91% indexed to 2019 in the quarter. But that was down from 94% in the first quarter presumably as the economy brands were deprioritized.

But as we think about the back half, similar question. Do you think you recover that indexed to 2019 in the back half, number one? And number two, you mentioned that premium and above premium were at the highest percentage of the overall mix that you've ever seen. I guess curious as to whether in absolute terms, those price tiers are – or how they compare to where you were in 2019 in the similar timeframe. Thank you.

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

A

Thanks, Steve. Okay, let me see if I can get all these for you. Looking in Europe, as I said actually, and particularly in the UK, as you know, on-premise is really important to us. And we've actually seen the on-premise approach 2019 levels for the last – well, most of July, actually. It actually spiked a bit higher than that, but that was distorted by the Euro finals. We were actually – in the UK, we're actually, for a few weeks, quite substantially above 2019 levels. That's settled back down now and as I said we're approaching 2019 levels. Central and Eastern Europe is being a little bit more impacted by tourism. And so we're probably not quite at the UK levels in Central and Eastern Europe.

And in the US, we've seen, as I think I've said on the last call, more outlets opened from an on-premise point of view than we were initially expecting. And certainly, volume has increased and settled down into a fairly stable level. We will have in the back half of the year a lot more fairs, festivals, alliance opportunities which we didn't have in the second half of last year. And I'm referring to football primarily, which is a big drinking occasion for us. So without wishing to put particular goals out there, we are encouraged by what we're seeing from an on-premise and venue volume point of view.

I wasn't totally sure I got your price tiers question, Steve. So let me give it a shot. We did, as I said, have the strongest share of our portfolio being above premium in the second quarter. Based on an NSR point of view, it was up into the high teens level, which – we haven't seen levels like that since, I don't know, the joint venture started. So working particularly well. And in Q2, our NSR was actually above 2019, so encouraging signs for sure.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful. If I just play it back to you; it sounds like you do, in North America, expect that the total portfolio, not just the on-premise but the total brand volume portfolio can better approach 2019 levels in the back half versus what we saw in the second quarter. Is that a fair playback?

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

A

No, not really, Steve, because of our decisions around the economy portfolio. So the economy portfolio, as I said in my prepared remarks and as we announced to our distributors today, we are taking a meaningful cut on our economy portfolio to rationalize that. So that would be a negative for us. And if you look at our share performance, our share performance [ph] quoted often (00:39:16) – 70% of that decline in shares is the economy portfolio for us. And we paused a lot of SKUs and brands. And some of them, as we announced today, won't come back. So certainly, from a premium lights and above premium point of view which include seltzers, we're feeling really good about our position and our momentum.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, that helps. Thank you very much. Appreciate it.

Operator: Our next question comes from Kevin Grundy, Jefferies.

Kevin Grundy
Analyst, Jefferies LLC

Q

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Hey. Good morning, everyone. I wanted to kind of pull together some of the topics we've discussed so far on the call, kind of bring it back to the revenue and EBITDA guidance, kind of the damage you're assessing the first six months of the year, looking through the balance of the year and specifically around the major puts and takes. When you spoke with the investment community in June, you said the company was running ahead of plan. On-premise recovery certainly seems to be running ahead of plan and certainly where folks thought perhaps six months ago, the performance of your seltzer portfolio similarly also running ahead of plan. Commodity environment worsened. And it seems like the SKU rationalization probably has greater pace than you anticipated at the start of the year.

So when you kind of pull all this together, I was hoping you could comment on anything perhaps we're missing. Just put a finer point on the puts and takes as you look back over the past six months, how this has progressed, your level of confidence for the company as you look to the balance of the year. And then perhaps just confirm given the setup here and the strategy, it sounds like the inclination will be to reinvest any top line upside. If you could just confirm that.

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

A

Thanks, Kevin. Yeah, a lot going on there. So I guess the two things which I would say when we talked to the investment community after Q1, which didn't transpire as we were expecting, was Canada. The reopening of the on-premise and the continuation of the lockdown went on for longer than we were expecting in Canada. And in the UK, we were expecting the so-called Freedom Day to be back in June. And as you know, that was delayed into July. I would say those are the two things that we didn't know at that time.

From a revitalization plan point of view, yes. The whole rationale for the revitalization plan is to drive both top line and bottom line growth. And the first year was always going to be a reinvestment year, which was supposed to be last year. But we've been through all the reasons why that didn't make sense. And we're certainly reinvesting behind our brands this year. We increased our marketing spend meaningfully in the second quarter. There were a couple of things that didn't make sense for us to do like invest in meaningful marketing in Canada while it was closed and delaying the UK out a month. So that was probably marketing spend that we would have spent in Q2, which we'll now move into the back half of the year, and as Tracey said, primarily in Q3.

Our supply situation has improved meaningfully since the cybersecurity attack. And our fast-moving brands and SKUs with the exception of one or two SKUs or subsegments are at inventory levels that are higher than they were at the same time last year, which allows us now to really put emphasis behind our brands. And as I said, Topo Chico is supply – we've worked really well with our partners to increase our supply in the third quarter and beyond. And so that'll be coming through, which will allow our marketing teams to really put emphasis behind that. So I think I've answered your question, Kevin, but help me if I haven't.

Kevin Grundy
Analyst, Jefferies LLC

Q

No, Gavin, that's extremely helpful. If I could just squeeze in one quick follow-up. Just, Tracey, on the cadence of the margin profile for this company; there's a lot of discussion on the ability for the company to reach pre-pandemic levels. As you sort of look out, understanding there's a lot of volatility still in the environment; how should investors think about that, balancing the need to reinvest and get investment levels back to pre-pandemic levels? But is there any reason to think that over the next couple of years that at the total company level margins should not reach where they were in 2019? And then I'll pass it on.

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

Yeah. Look, we had not given guidance beyond this year. But as Gavin spoke to the revitalization plan, that is about premiumization which obviously comes with higher margin. It is about the cost savings initiatives in our breweries as well as from a G&A point of view. So that should help. But beyond that, we haven't given guidance. But I would just consider those items specifically related to revitalization.

Kevin Grundy
Analyst, Jefferies LLC
Q

Very good. I'll leave it there. Thank you. Good luck.

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

Thanks, Kevin.

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

Thank you.

Operator: Our next question comes from Nadine Sarwat with Bernstein.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

Yeah. Morning, everybody. Thank you for taking my question. So I wanted to zoom in a little bit more on Europe. So how much of the volume growth that you saw in Europe came from restocking at distributor levels or retailers, especially on-trade? As you said, Freedom Day was meant to be in June. Then it was moved to July. And then any update on the state of the inventories now and how that can help us think of the state in Q3? Thank you.

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

Thanks, Nadine. As far as inventory levels, is that a question for Europe or for the US?

Nadine Sarwat
Analyst, Bernstein Autonomous LLP
Q

Maybe we kick off with Europe and then that was actually going to be my follow-up on the US.

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

Okay. Well, look, in Europe, we experienced progressive improvement as hospitality reopened. As you know, it reopened for outdoor consumption on April 12 and then moved indoors on May 17 and then obviously only fully out into freedom on July 19. We saw on-premise volumes in Q2 average around 70% of pre-pandemic levels. And as I said, in July, we've seen on-premise really start to approach the 2019 levels. There wasn't a one-week or two-week buildup of inventory in the on-premise. And so I would say that that would be more progressive. Frankly, we don't hold big inventories in the UK at all. So it's not going to be a material impact one way or another from an inventory level point of view.

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And then for as far as inventories in the US are concerned; look, we said we wanted to be in a better place by Memorial Day and we were going to be in a good place by July 4 with our big brands and our fast-moving SKUs. And certainly, cans was always the big challenge. And we delivered what we said we were going to do with cans on our big brands and large packs. And the inventory levels for those SKUs were actually – have been and continue to be above the same levels as they were in 2020. So we're making good progress there.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Great. That's very helpful. And then if I could just squeeze in one more follow-up. A lot of questions so far on Topo Chico. Can you give us any indication as to data you're getting from the consumers? How much of that performance is coming with respect to new trials or repeat buys? Any additional color would be helpful.

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

A

Yeah, Nadine. The demand for Topo Chico is incredibly strong. It's really only got one SKU and we've only got distribution in 16 markets. It's already the number three new item in the segment. It's quickly become the fastest trading seltzer brand in Texas, the number three fastest trading seltzer overall right behind White Claw and Truly. And our supply continues to be tight, but our production's improved. So that is going to allow us to push distribution and [ph] features (00:47:40).

Our distributors, our retail partners have got strong belief in this brand and we're seeing that from a consumer point of view as well. It's actually a top 10 growth brand in the country and as I said, in less than half of the states. From a – where is the volume coming from? It's coming from across all of the demographic groups. There's no one particular demographic group that dominates. And I'm sure it's taking share from some of our competitors, yes, for sure.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Okay. Thank you. I'll turn it over.

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

A

Thanks, Nadine.

Operator: Our next question is from Laurent Grandet, Guggenheim.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Thank you and good afternoon, everyone. So two sets of questions. And the first one is really trying to exhaust the questions on seltzer. You obviously mentioned that Coors Seltzer is cut. But you reiterated your goal to reach the 10% of the seltzer category by year-end. So if you can really provide some color on how would you [indiscernible] (00:48:59) will bridge the gap from where you are right now to 10%.

And really on this and that with the loss of Coors Seltzer, would you be pushing for Vizzy in the short term to gain more shelf space and how comfortable you are you will get that? And also, with Coors Seltzer gone, you probably

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got some more manufacturing capacity potentially to launch faster Topo Chico if you were to [indiscernible] (00:49:35) in-house sooner. So wanted to know if this thought has been impacting the timeline for Topo Chico to [indiscernible] (00:49:47) in-house and to be relaunched in more states.

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

A

Thanks, Laurent. As far as our 10% share goal is concerned, as I said, I think we got two clear and differentiated winners with Vizzy and Topo Chico. With Vizzy, we're seeing strong traction with the innovation that we brought particularly with the variety pack 2 and Vizzy Lemonade. We're seeing with retailers where we've got all three Vizzy SKUs on shelf that we see almost a two-thirds increase in each of those SKUs' velocities.

And so we're going to continue to fuel Vizzy's momentum. We've got more innovation coming. We have had innovation [ph] LTOs (00:50:31) like our June Pride Pack. And we've just recently launched a watermelon variety pack. So it's carved out a unique point of difference in the category and so much so that we're well on our way to becoming the number four spot in the segment despite all the new entrants in 2021.

I'm not going to show our hand in terms of which brands are going to take Coors Hard Seltzers' space. But you can assume that we do have innovation coming on Vizzy. And we will utilize Coors Hard Seltzers' space to put that innovation from Vizzy into that space. And so we feel good about Vizzy. Vizzy will certainly be a big part of getting to our 10 share goal, as will Topo Chico.

As I said to Nadine – I'm not going to repeat all of that, but it does remain incredibly strong. Supply is improving. We have worked with our third-party suppliers to ramp up their supply and we will go national when we believe we can supply the markets that we're in at this point in time. How high is high is not quite clear yet on Topo Chico because we haven't been able to supply all of the demand in Texas we are over a 10 share I said. And in other states, we're doing equally as well.

So in terms of when are we going to bring it in-house, we've always said we're going to bring it in-house in 2022. That plan is on track. When we do, it'll improve our margins. And it's a slightly different process than perhaps Vizzy or Coors Seltzer. So it's not a direct substitution from a liquid point of view. But certainly, from a can availability point of view, we've got that capacity and it's ready. Happy to take one more question, I think, operator.

Operator: Our next question comes from Sean King with UBS.

Sean R. King
Analyst, UBS Securities LLC

Q

Great. Thanks for getting me in here. One question I have is what was the cadence of depletions from – I guess we heard in the US like a positive mid-single digits back in April to the minus 4% for the quarter. And any insights maybe you could provide on what you're seeing in July for completions.

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

A

Thanks, Sean. Look, from a second quarter point of view, most of our decline would have been in the economy space. If you look at our share, I think I've said almost approaching 70% of our share loss is economy. It's a very choiceful decision that we've made.

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That doesn't mean that we don't think all segments matter because we do. We do believe all segments matter. But we've chosen to ensure that we meet the demands of the largest segment of our consumers at this point in time. So most of that decline would have been driven by the choice we made around economy. As far as volume guidance into the second half, Sean, we don't do that as a matter of principle anymore. I know we used to do it in the years past. But we're not going to give that now.

Sean R. King
Analyst, UBS Securities LLC

Q

All right. Well, it was worth a shot. But I appreciate the color. Thank you.

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

A

Thanks, Sean.

Operator: This concludes our question-and-answer session. I would like to turn the conference back to the speakers for any closing remarks.

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

Thanks very much, operator. And look, I understand that there were more questions that we weren't able to get to today given the time constraints. So please if you could follow up with our Investor Relations team. And we look forward to talking with many of you as the year progresses. So thank you, everybody, for participating in today's call.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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