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Molson Coors Beverage Co. (TAP)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Molson Coors Beverage Company Fourth Quarter and Fiscal Year 2021 Earnings Conference Call. You can find the 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 over 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 today from Gavin and Tracey, we will take your questions. In an effort to address as many questions as possible, we ask that you limit yourself to one question. If you have more than one question, we'll answer that – your first question, and then ask you to reenter the queue for any additional or follow-ups. If you have technical questions on the quarter, please pick them up with our IR team in the days and weeks to follow.

Today's discussion includes forward-looking statements. 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. 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, in US dollars and in constant currency when discussing percentage changes from the prior-year period.

With that, over to you, Gavin.

Gavin D. K. Hattersley

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

Thanks, Greg. 2021 was a turbulent year all around the world, for our industry and for our business. The pandemic raged and receded multiple times, but unfortunately, it surged in the last six weeks of the year. And with it came government restrictions related to bars and restaurants, most notably in Europe and Canada. That impacted our business creating a whole host of challenges and yet through it all Molson Coors made tremendous progress in each of the pillars of our Revitalization Plan. Our two biggest brands, each grew net sales revenue in the US, Americas and globally, an incredible feat given the fact that over the past few years, many folks have been of the belief that this whole segment was in a path of spiralling declines across the US and Canada.

We finished the calendar year with a larger global above premium portfolio than ever before, with our hard seltzer portfolio growing at the fastest rate of any major beverage company in the United States, very strong hard seltzer growth in Canada and standout beer innovations in the UK as well as in Central and Eastern Europe. We are moving to scale beyond the beer aisle on the back of the fastest-growing energy drink in the United States per IRI, and we continue to invest in our future growth all around the world. Folks, in 2021, Molson Coors grew the top line for the first time in a decade. Top line growth is one of the core goals of our revitalization plan and a result our company has not been able to deliver in a long time.

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Yes, we slightly missed our guidance on EBITDA, as a result of the impact of the Omicron variant surge in the last six weeks of the quarter. But, at the same time, we have been very disciplined with cash within the business, improving our leverage ratio faster than we expected, and we chose not to cut the marketing investments that will help ensure the long-term health of our brands and our business. Overall, Molson Coors finished 2021 as a healthier business than we were at the end of 2019.

Now as you'll recall in our third quarter call, we said that uncertainty as it pertains to potential surges in the coronavirus and/or its variants to varying degrees by market could have an impact on our financial performance. And unfortunately, that is exactly what happened. The on-premise in much of EMEA experienced increased restrictions beginning in the middle of the fourth quarter as the Omicron variant surged. In the UK, the Christmas holiday period is one of the most important sales windows through the whole year. And due to government restrictions for pubs and restaurants and more cautious consumer behavior, we fell to below 80% of 2019 net sales revenue in December. UK is our third largest global market by net sales revenue, and the on-premise accounted for 65% of our business there in 2021.

So, as was well established earlier in the pandemic, when that channel is restricted or shut down, it has a meaningful impact in our business. And we felt that in the fourth quarter. But we know from experience over the past two years of the pandemic, that this has been temporary. When the on-premise channel has reopened and when consumers are comfortable reentering bars and restaurants, they came right back. And I'm proud to announce that we are ranked number one in the UK Advantage Group survey. That is an independent industry-wide survey on how the big on-premise national customers across the UK view brand owners. And the results speak volumes about our hard-working team.

Additionally, some of our US suppliers had renewed challenges, providing materials like bottle crowns at the tail end of the year, which had knock-on effects on our production. But this has certainly eased in the time since. We've taken matters into our own hands by increasing the number of suppliers we work with to limit these kind of issues going forward. One point I want to make clear though is that while pandemic-driven issues with freight availability and the global supply chain continue to challenge us in the fourth quarter, we made significant improvements with our distributor inventory in the US.

We closed 2021 with about 700,000 more barrels of distributor inventory than we did in 2020. And that progress puts us in a far better inventory position heading into 2022. And in fact, our out of stocks for core brands and packs are at their lowest levels since before the pandemic. Today, our top line is growing fast for the first time in 10 years. Our core brands are growing net sales revenue for the first time in years. Our portfolio is premiumizing to levels never before achieved. We are moving to scale beyond beer and our business is making tangible progress towards achieving the goals of our revitalization plan. We are set up for a strong 2022.

Now, I want to dig in a little deeper, starting with our core brands. For the past few years, you've heard us talk about things like segment share and brand health as leading indicators that Coors Light and Miller Lite remain strong foundations of our global business. And today, I'm very happy to tell you that each brand grew net sales revenue in the US in 2021, Coors Light by 4.4% and Miller Lite by 7.6%. We also saw double-digit growth in our on-premise placements for Miller Lite versus last year. In Canada, Coors Light also reported revenue growth in the fourth quarter, while Miller Lite revenue was up double digits for the full year with acceleration in the fourth quarter.

Our portfolio continues to premiumize. Our above premium net sales revenue has grown over 15% in 2021. The biggest driver of that premiumization was our growth in US hard seltzers. Despite ending the year with only one

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nationally distributed hard seltzer brand, our portfolio grew triple-digits over the course of 2021. And we generated the largest growth rate in this space among any of the major beverage suppliers per IRI. Today, we have two of the top five hard seltzer brands in the US with Topo Chico Hard Seltzer and Vizzy. And we see more upside ahead. Of the current top 10 hard seltzer franchises, Vizzy is the only one that has existed for multiple years and has never lost hard seltzer share in a quarter. In 2022, that success is continuing with Vizzy growing both industry and hard seltzer share.

And while it's still early, we are very optimistic about the national launch of Topo Chico Hard Seltzer. Topo Chico Hard Seltzer has jumped to the second fastest turning hard seltzer nationally, and we believe it can become a top three hard seltzer in the US. Per IRI, Topo Chico Hard Seltzer has improved industry share each week since its national launch. Even in markets where the Topo Chico mineral water is less known, we are seeing strong results. Per IRI, Topo Chico Hard Seltzer alone has already reached a five share of hard seltzer in seven new markets since launch. And we're bringing new packs to the brand with bottles, Margarita Hard Seltzer and Ranch Water that is already driving results.

Our 12 pack of Topo Chico Ranch Water is not only the fastest turning ranch water in Texas, it's the fastest turning in the United States. Our hard seltzer progress extends to Canada, where we achieved a nine share in hard seltzers in less than nine months. That was driven by both Vizzy and Coors Seltzer, with both brands finishing the year in the top 10 hard seltzer brands in Canada.

Above premium beer continues to be a growth driver for us as well. In the US, Blue Moon Belgian White grew net sales revenue by high single digits in 2021 and saw double-digit growth in the fourth quarter. Peroni earned double-digit growth in 2021, and our US regional craft portfolio once again outpaced the category. And we are gaining total share of the craft segment in Canada as well, led by the strong performance of Brasseurs de Montréal and Le Trou du Diable.

We also continued to premiumize our EMEA and APAC business. Madri Excepcional has continued to accelerate as the world beer category grows in the UK and in Ireland. As of today, it's now delivering the fourth highest rate of sale of all draught world lagers per CGA. And in 2021, Pravha became the fastest-growing premium 4% lager per CGA.

We're also bringing an exciting new innovation to market in the US through an expanded agreement with the Coca-Cola Company. Simply Spiked Lemonade will be a full flavor alcohol beverage inspired by the number one overall juice brand, a growing billion-dollar brand and the second largest brand in Coke's portfolio. Simply can already be found in one out of every two American households, and the brand continues to grow. So, we are very excited about this opportunity to shake up the full flavor alcohol beverage space as more legal age consumers look for bolder flavor.

In 2021, we put teeth behind our talk of becoming a total beverage company. Our Beyond Beer products are performing very well and helping to fuel our emerging growth business, which contributed approximately $800 million to 2021 net sales revenue, tracking ahead of our $1 billion annual revenue target by 2023. ZOA has already proven to be a success with a lot of opportunity still ahead as we continue to expand distribution. In less than 10 months, it has gone from nonexistent to the fastest growing energy drink in US per IRI and it is number two in health energy drink sales in the C-store channel. Latin America closed out 2021 with stellar performance, generating double-digit growth across this part of the business and record sales in many of the markets in which we operate.

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And we're backing it all up by investing in our capabilities, there are the physical investments, which are, of course foundational, new hard seltzers production capabilities will be coming online in the US. We will soon turn on the new hard seltzer and spirits production line in Toronto. Our new state-of-the-art brewery is online in Montreal, and we're adding new canning and production capabilities in the UK. And then there are the investments we are making behind our brands. We increased marketing behind our core brands and key innovations and we've become much more effective with those dollars as we accelerated our digital marketing capabilities.

Folks, over the past two years, we have laid the foundation for some sustainable long-term top and bottom line growth at Molson Coors. Today, our core power brands are growing dollar sales. Today, more of our portfolio is in the above premium space than ever before. Today, we are moving to scale beyond the beer aisle. Today we have stronger capabilities to drive future growth. And because of all of that, because of the foundation we have laid over the past two years, against great odds and in a historically challenging environment, we can give guidance that, in 2022, Molson Coors expects to deliver highest top and bottom line growth in over a decade. We will continue to invest in our business to drive towards sustainable long-term top and bottom line growth.

Now to give you greater details on that, I'd like to hand it over to our Chief Financial Officer, Tracy Joubert. Tracey?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin, and hello, everyone. As Gavin highlighted, 2021 was a year of tremendous progress against our revitalization plan. Despite the challenges that we and so many other companies faced, we achieved our top line guidance of mid-single-digit growth for the year, delivered strong free cash flow, enabling us to further reduce our leverage ratio and returned cash to shareholders. We continued to execute our revitalization plan, building a strong foundation for future growth and we issued fiscal 2022 guidance that underscores that progress.

Before I take you through our quarterly, our full year performance and our outlook, I would like to update on a couple of naming convention changes in our business unit reporting. This does not change our reported results for these segments and was done so the names better reflect the geographies within the segment. As of December 31, 2021, our reporting segments are the Americas, formerly called North America, and EMEA and APAC formerly called Europe.

Now let's discuss the fourth quarter. We delivered strong top line and EBITDA performance. While we benefited from cycling significant on-premise restrictions in the prior year, we were still impacted by the rapid emergence of the Omicron variant in mid-November, which resulted in overall on-premise softness compared to the third quarter. In December, the US on-premise net sales revenue was approximately 86% of December 2019 net sales revenue, down from third quarter levels of approximately 88%. Canada was approximately 60% of December 2019 net sales revenue, down from third quarter levels of approximately 80%. And the UK was below 80% after being close to 100% in the third quarter.

Consolidated net sales revenue increased 13.7% driven by EMEA and APAC growth of 56.5% and Americas growth of 7.1%. Consolidated net sales revenue growth was driven by higher financial volumes, positive global net pricing and favorable brand and channel mix due to premiumization and fewer on-premise restrictions versus the prior year. In fact, consolidated net sales revenue increased 4.3% compared to 2019.

Consolidated financial volume increased 7.4% as we rebuilt US domestic inventories and grew brand volumes 2.3%, driven by EMEA and APAC, Canada and Latin America. This was partially offset by lower US economy brand volumes as a result of our economy SKU [ph] de-prioritization (16:04) and rationalization program. In the

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US, we grew net sales revenues 6.3%, with domestic shipments up 3.3%, reflecting our efforts to build distributor inventories following the supply disruptions in 2021. US brand volumes declined 3.8%, but this was driven entirely by the economy portfolio, which was down double digits, while our premium portfolio grew low single digits and the above premium portfolio was up double digits for the quarter.

In Canada, our net sales revenue increased 9.9% on strong brand volume growth of 6%, while Latin America net sales revenue increased 15.9% on brand volume growth of 12.4%. EMEA and APAC net sales revenue grew 56.5%, driven largely by Western Europe, but also growth in Central and Eastern Europe. Strength in our core brands and new innovations like Madri led to double-digit growth in above premium and premium volume, partially offset by double-digit declines in economy. Net sales per hectoliter on a brand volume basis increased 3.8%, driven by global net pricing growth and positive brand and channel mix with premiumization delivered across both business units.

Underlying COGS per hectoliter increased 5.2% driven by cost inflation including higher input and transportation costs and mix impact from premiumization. So, we benefited from volume leverage due to higher production volumes and continued progress on our cost savings program. Underlying MG&A in the quarter increased 2.4% as we continued to invest behind our core brands and innovations across both business units, while G&A was flat.

As planned, we increased marketing investments in the quarter to levels above the fourth quarters in both 2020 and 2019, providing strong commercial support behind our brands as we head into 2022. As a result of these factors, underlying EBITDA increased 21.9%. And recapping the full year, consolidated net sales revenue increased 4.7% with Americas up 2% and EMEA and APAC, up 19.6%. Top line growth was driven by global net pricing, favorable brand and channel mix from premiumization and fewer on-premise restrictions and EMEA and APAC volume growth. This was partially offset by lower financial volumes in the Americas.

Consolidated financial volumes declined 0.5%, while brand volumes declined 1.7%. Americas brand volumes declined 3.2% as a result of the economy SKU de-prioritization which began in the second quarter of 2021, and rationalization program which was announced last July. EMEA and APAC brand volumes were up 3%. Net sales per hectoliter on a brand volume basis grew 3.8% due to global net pricing growth and favorable sales mix. In the US, net sales per hectoliter on a brand volume basis was up 4.4% for the year, driven by net pricing growth and the success in above premium products, including Vizzy, Topo Chico Hard Seltzer, the Blue Moon family, and Peroni.

Underlying COGS per hectoliter increased 6.9%, driven by cost inflation, including higher input and transportation costs, mix impact from premiumization and volume deleverage. However, with the benefit of our robust hedging and cost savings programs, we were able to mitigate some of the inflationary pressure. Underlying MG&A increased 2.9%, largely due to higher marketing investments versus 2020. In the second half of 2021, we began to progressively increase marketing spend with the resumption of more sports and live events. MG&A increases were also driven by lapping positive cost mitigation actions in 2020 due to the coronavirus pandemic, and were partially offset by our cost savings program.

In 2021, we delivered approximately $220 million across MG&A and cost of goods sold in our three-year $600 million cost savings program. Over the 2020 through 2021 period, we have delivered an aggregate $490 million, placing us well on track to meet our $600 million target in total gross savings by the end of 2022. As a result of these factors, underlying EBITDA decreased 3.5%. This was slightly below guidance of approximately flat and was driven by the on-premise softness as a result of the Omicron variant. However, underlying net income before income taxes was approximately flat for the year as a result of lower interest and depreciation, 5.6% underlying EPS growth compared to the prior year.

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Underlying free cash flow was $1.1 billion for the year, a decrease of $183 million from the prior year. This decline can be wholly attributed to the repayment of approximately $100 million of taxes related to various government-sponsored deferral programs related to the pandemic, which benefited the prior year free cash flow by $130 million, creating a negative swing factor of about $250 million (sic) [$230 million] on our 2021 free cash flow. Excluding these changes, net working capital movements were favorable to the prior year.

Capital expenditures paid were $523 million for the year, down from $575 million in 2020 and focused on expanding our production capacity and capability programs such as the previously announced Golden Brewery modernization project, our new Montreal Brewery which opened during fourth quarter, and expanding our Hard Seltzer capacity in Canada and the UK.

We have continued to make great progress strengthening the balance sheet and improving our financial flexibility. We reduced our net debt by nearly $1 billion in 2021 and our trailing 12-month net debt to underlying EBITDA ratio to 3.14 times better than our guidance of approximately 3.25 times and down from 3.5 times as of the end of December 2020 and down substantially from 4.8 times in 2016 at the time of the MillerCoors acquisition. We ended the year with strong borrowing capacity with no borrowings outstanding on our $1.5 billion US revolving credit facility.

That takes me to our outlook, which calls for both top and bottom line growth in 2022 for the first time in over a decade. Before we go through the guidance, I wanted to note that year-over-year growth rates are in constant currency basis. We're adjusting the metric provided to base align with the goals of our revitalization plan. Also and consistent with our historical commentary uncertainty as it pertains to the coronavirus and its variants remains to varying degrees by market. If on-premise restrictions are increased and/or reinstated in some of our larger markets, this could have a significant impact on our financial performance during that period. For 2022, we expect to deliver mid single-digit net sales revenue growth. We expect to deliver high single-digit underlying income before income taxes growth and underlying free cash flow of $1 billion, plus or minus 10%. This guidance implies that we will ship consumption in the US for the year.

In terms of phasing, recall that we will start lapping the economy SKU de-prioritization and rationalization in the second quarter of 2022. In addition, we expect to face continued inflationary pressures, including transportation and material cost. While we have levers to offset inflation, including pricing, mix from premiumization and our cost savings and hedging programs, these headwinds are expected to continue to pressure gross margin, but have been built into our guidance. And we expect to continue to invest behind our core brands and key innovations, which entails increasing the level of marketing investment from the prior year.

Given the on-premise restrictions in the first half of 2021, we expect greater year-over-year increases in marketing spend in the first half of 2022. We also intend to invest behind our capabilities with cash capital expenditures anticipated to return to more normal pre-pandemic level. Other guidance metrics include underlying depreciation and amortization of approximately $750 million, plus or minus 5%, reported; net interest expense of $265 million, plus or minus 5%; and an underlying effective tax rate in the range of 22% to 24%.

Turning to capital allocation. Our priorities remain to invest in our business to drive top-line growth and efficiencies, reduce net debt and to return cash to shareholders. We are maintaining our target net debt to underlying EBITDA ratio of below three times by the end of 2022, and we have a strong desire to maintain and in time upgrade our investment-grade rating. And on February 22, 2022, the Board declared a dividend of $0.58 (sic) [$0.38] per share, an increase of 12%. Also on February 17, 2022, the Board of Directors approved a share repurchase program authorizing the company to purchase up to an aggregate of $200 million of our company's

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Class B common stock through March 31, 2026, with repurchases primarily intended to offset annual employee equity award grants.

In closing, 2021 was a volatile year, but it did not deter us from executing our plan. The progress we have made has laid a strong foundation to achieve our goals of sustainable long-term top and bottom-line growth and our 2022 guidance demonstrates our confidence we are on the right path.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the Q&A portion of the call. [Operator Instructions] Our first question goes to Kevin Grundy with Jefferies. Kevin, your line is open. You may go ahead.

Kevin Grundy
Analyst, Jefferies LLC

Q

Great. Thanks. Good morning, everyone. And congratulations on the continued progress particularly in the difficult environment, I wanted to start with the sales guidance for the year. Tracey, this may be for you. Maybe just spend a moment on how you expect that to breakdown between volume and net sales per hectoliter within net sales per hectoliter maybe just comment broadly on the contribution you're hoping for between price and mix, particularly from a pricing perspective, given the difficult input costs environment? And then Gavin, and maybe just at a high level coming off of what's been a strong year for your key brands. Just offer some thoughts if you wouldn't mind doing your outlook for Coors Light and Miller Lite in the upcoming year? And then, I'll pass it on. Thank you for that.

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

A

Thanks, Kevin, and good morning. Let me start, and then Tracey can take you through some of the guidance around cost of goods sold and so on for 2022, but from a pricing point of view, obviously we are experiencing inflationary pressures. We expect them to continue well into this year. And while we take – have historically taken price increases in the spring of every year, this year, we actually announced price increases a little earlier than that. And we went with a price increase of between 3% and 5%, that took place mostly in January, in the early part of February and obviously the amount and the timing of pricing increases does vary by market.

And we do have more levers than just pricing, of course, right. We have the mix shift which is fundamentally part of our revitalization plan is to shift our mix into the above premium and emerging growth. And emerging growth is almost entirely above premium. So, I spoke about that in my opening remarks, and Tracey, why don't you talk about the hedging program, maybe and then I'll circle back on the brand.

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

A

Okay. Yeah. I mean, we've spoken before about our robust hedging program and how we cover all our key commodities. So, as we look into 2022 and 2023 we're really comfortable with that hedging position. And that hedging program is going to play a part in mitigating some of the inflation that we seen.

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

A

Thanks, Tracey. And Kevin, look, I mean, our business at the end of 2021 is fundamentally more sound than it was at the beginning of the revitalization plan, particularly with our brands and you referenced Coors Light. We ended the year with both of those brands growing the top line, which we haven't done for quite some time. Coors Light, the Made to Chill campaign continues to work hard for us, both regionally, nationally, and at a local level. It's resonating and attracting 21 to 29 year old consumers. And Miller Lite has despite some of the emerging challenges and some of the tough comps we had to overcome has just sequentially improved over the year.

And that continued to focus on [ph] a True Beer's beer (31:23) through all sorts of different brand acts like the beernaments and more recently the exploration into the metaverse. So, we feel like those two brands are really well-placed heading into 2022. And then looking beyond that above premium Blue Moon has bounced back very strongly – our emerging growth division, as I said, is ahead of our plan to get to $1 billion. Canada is growing. Coors Light has grown share. It's as healthy as it's been for a while. And Europe is bouncing back now that we're heading through the Omicron variant and restrictions have been lifted, and we've got strong above premium innovation, which is a very strong on-premise bias. So, yeah, I think hopefully, that answers your question, Kevin.

Kevin Grundy
Analyst, Jefferies LLC

Q

Yeah. That's very thorough. Thank you very much. I have a number of questions. I'll take offline with Greg and Tracey, but continued success. Thank you.

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

A

Thank you.

Operator: Thank you, Kevin. Our next question goes to Rob Ottenstein with Evercore. Rob, your line is open. You can go ahead.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. Gavin, I was wondering if you could talk a little bit about how business is starting off this year. I mean, we all see the public information. January was a very tough start for the whole industry. How much of that do you think is the maybe sticker shock from price increases, Omicron, the weather, Maybe people had a lot of beer in their pantries, given that a lot of holiday parties may have gotten canceled. I'm just trying to get a little bit more of a sense of what the beer industry and your business looks like and maybe what you're seeing in February to give you confidence to underscore your guidance? Thank you.

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

A

Thanks, Rob. Look, I'm not going to repeat what I said to Kevin, as far as our overall brands are concerned. But if you look to the January, yeah, I mean the data that's publicly available, will say that the whole industry, it wasn't the easiest of months. I don't think pricing has got anything to do with it because the pricing increases came in the month – even into February to impact January trends. So, I don't think it's got anything to do with it. And frankly, the price increases, as I just said, for us, 3% to 5%, well lower than inflation rates, which are sticking in the consumers' minds.

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I'd point a finger squarely at the second point you raised there, which is Omicron, right? Consumers were resistant to going out into the on-premise December and into January. And as we've got further into January and now into February, we've seen the consumers come back to the on-premise, particularly in our European businesses where restrictions have been largely lifted, but also in United States and to a lesser degree in Canada. So, I'm going to point the finger squarely at Omicron, Rob.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

And so, I guess, tied to that, it would be your sense, you're not expecting much in the way of demand elasticity on the price increases, maybe be less than historical.

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

A

Well, we always – we understand pricing elasticity in a normal world, right? And I think, we're operating in somewhat unknown territory. So, I think, it's a little too soon to tell exactly what the various price increases that have gone into the market, what impact that will have from a volume perspective, Rob. I think as we head into spring and summer, we shall see.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Terrific. Thank you very much.

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

A

Sure. Thanks.

Operator: Thank you, Rob. Our next question goes to Andrea Teixeira with JPMorgan. Andrea, your line is open. You can go ahead.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. Good morning. So, my question is the assumption of the G&A savings, because your earnings guidance embeds faster growth, if I understood correctly, on the bottom line, and I understand from Tracey's comments that gross margin will go – will be pressured this year in spite of the timing of the hedges, which I'm assuming are going to be better in the first half of the year and then give back some in the second half. So, are you embedding your EBITDA margin will expand in 2022 to reach your profit guidance? And then related to that, I think, the investors that I got – that I spoke to this morning were asking about what drove the EBITDA miss in the quarter and also the year, and also the reason to refrain from giving guidance on an EBITDA basis for 2022 and use earnings before tax, just a clarification there. Thank you.

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

A

Thanks, Andrea. I think, Tracey, why don't you take all those?

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

A

Yes. Okay. So, first of all, I think you spoke of – you asked about the margin expansion. So, [audio gap] (36:30) mid single-digit top line and high single-digits income before tax line, there's a couple of things that need to be considered. So, first of all, you're right. I mean, we are seeing an inflationary environment. We expect to see inflation continue on commodities and packaging materials, and we also expect the freight market to remain tight. So that will create a COGS headwind.

But, to mitigate that, we have a very robust hedging program. As you mentioned, we typically hedge the first year, somewhere between one and three years, depending on the commodity and the liquidity of that commodity. But, in the first year, our hedges are obviously higher than the outer years, which are typically lower. So, we have a robust hedging program. As we look now into 2022 and 2023, we are very comfortable with our hedge positions.

In addition to that, we've got the cost savings program. This is part of that $600 million program. We've already delivered $490 million of that. We've got items like the new state-of-the-art more efficient breweries in Canada, that we spoke about that have come online. So that's certainly going to help from a cost point of view. We've got the continued premiumization of our portfolio, which is really all about what the revitalization plan is driving.

We obviously have spoken a little bit about [audio gap] (38:10) and then this year, we have a full year of contribution of our equity income from our Yuengling joint venture. So, we've got a couple of those items that will play out in 2022. But, having said that, we're going to continue to invest in our business and behind our brands as you saw in Q4 of 2021.

So, in terms of EBITDA, the Q4, so we did reaffirm our guidance at the end of October based on the plans that we had in place. And more importantly, what we were seeing in terms of very strong on-premise performance during Q3 and going into Q4. We stated on the call at that time that if restrictions were reinstated in some of our larger markets that would have a significant impact on our financial performance over the next few months. And we saw that with Omicron reemergence in mid-November, and we saw return to both government imposed restrictions as well as changes to consumer behavior, and that impacted our on-premise performance in all our markets, but particularly in the UK where we've spoken about just what a big part of our business the on-premise is.

But, having said that, we still hit our mid single-digit top line and we continued to invest in our brands. So that was important to us. We did not pull back on the investments, which makes – which sort of helps us set up 2022 with a strong foundation. So that was really the Q4. And then the guidance in terms of EBITDA, so what we have done is we have given metrics, which we believe best align with our revitalization plan goals of driving both top and bottom line growth. We've added – in addition to the net income before tax, we've added the depreciation and amortization, which we normally give. We've given net interest and we've given the effective tax rate as well as free cash flow and leverage target ratio. So, if you add those back, you will get back to the EBITDA range. So we just believe that this is a better guidance in terms of our revitalization plan.

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

A

Thanks, Tracey.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you.

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Operator: Thank you, Andrea. Our next question goes to Bill Kirk with MKM Partners. Bill, your line is open. You can go ahead.

Bill Kirk
Analyst, MKM Partners LLC

Q

Thank you. Good morning, everybody. Tracey, can you help us with some 1Q phasing items, I think you have about 2 million hectoliters shifting back into the first quarter related to the Texas freeze and the cybersecurity events, but I guess what about prior year cost comparisons, are they easier in some ways since the prior year had those disruptions and maybe made servicing the wholesalers more expensive?

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

A

Yeah. So, we don't specifically give quarter-by-quarter guidance, but maybe some of the things just to think about is, from a marketing point of view, marketing will be higher in the first half of the year, as we tackle some of the on-premise shutdowns and things like that. But we are expecting our full year marketing in 2022 to be higher than 2021, but really more so in the first half.

In terms of other COGS, obviously, we're still going to be impacted by inflation as I've said. But some of the other things to consider is assuming that we don't see high levels of on-premise restrictions in the first half of 2022, we'll expect to see some benefit from volume leverage, particularly in our EMEA and APAC business.

We'll also expect to see both channel and geographic mix benefits as we cycle the first half restrictions in EMEA and APAC, which have a lower overall COGS per hectoliter. And then, again, I just do want to mention our robust hedging program where we cover all commodities, and we're really comfortable with where we're sitting. Obviously, we've also got our cost savings program which we'll deliver as well. So, I'd say, those are some of the things to consider for at least the first half of this year.

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

A

The only other thing I'd add to that, Bill, is the other side of some of that positive, which you mentioned, which is the Texas storm and the cybersecurity attack, is obviously our economy of SKU reduction and rationalization, right? So, we still have the headwind of that, particularly in the first quarter and then for a chunk of the second quarter. So that will be a negative from a volume perspective.

But if you recall in the fourth quarter, we – actually, all of our volume loss in the fourth quarter in the US was driven by economy as premium lights grew as did above premium as well. And of course, we came into the year with robust inventory. So, we're not expecting any meaningful out of stocks. And I think as I said in my opening remarks, we're actually operating at levels lower than pre-pandemic at the moment, which obviously we're very pleased about, and I'm sure our distributors are too.

Bill Kirk
Analyst, MKM Partners LLC

Q

Thank you, Gavin, and as a follow-up there, I think, you mentioned Topo Chico was – the hard seltzer was the number two turning hard seltzer. Retailers are finishing up their spring shelf resets right now, did they respond the way you wanted to with Topo Chico here with their resets given those velocity stats?

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

A

Yes, they did. We've got – our national rollout of Topo Chico has been very well received by both big and small retailers.

Bill Kirk
Analyst, MKM Partners LLC

Q

Okay. Thank you.

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

A

Thank you.

Operator: Thank you, Bill. Our next question goes to Steve Powers with Deutsche Bank. Steve, your line is open. You can go ahead.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Hey. Thank you very much. A couple of follow-ups on things I guess mostly for Tracey we've covered before. On the hedging program, I guess, are you able to be any more specific around where you think your COGS per hectoliter, I guess, what your outlook is for the coming year before any productivity offsets? I just – I think, the spot market would indicate potentially double-digit type inflation. It sounds like you're going to be well below that. I'm just trying to get a sense for order of magnitude and how much inflation may be deferred into 2023? That's question number one.

And then two, I know I'm supposed to only have one, but if you can humor me, on the second one, on EBITDA just to move away from explicit EBITDA guidance, I think, all the piece parts that you gave us do allow us to back into EBITDA, but I think it results in a wider range than you might typically land on. So, is that intentional, should we be thinking kind of the midpoint of all those things, low single-digit type EBITDA increase? Just – or do you – are you intentionally leaving a little bit wider? So, thank you for both those.

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

A

That's for you, Tracey.

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

A

Yeah. So let me try that. So, Steve, look, we didn't give COGS per hectoliter guidance, but it is built into our bottom line guidance, so the high single-digits net income or income before tax guidance that is built in there. Some of the things maybe that can just help put a bit of color around our COGS outlook, is as I said previously, we'll continue to be impacted by inflation on our commodities and our packaging materials in particular, and we do expect the freight market to remain tight. In Q4, we actually saw some noticeable impact from inflation on our EMEA and APAC business, and we expect to see that continue into 2022.

But inflation is just one component of our COGS charge and maybe a couple of additional items just to consider to add some color. So again, assuming we don't see the similar levels of on-premise restrictions as we saw in the

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first half of 2021, we do expect to see some benefits, particularly in EMEA and APAC business around volume leverage. I also mentioned earlier that we expect to see channel and geographic mix benefits again in EMEA, APAC, which has a lower overall COGS per hectoliter cost. I had mentioned our hedging program, we don't get into specific details around that other than saying that we typically hedge anywhere between one and three years, depending on commodities, depending on liquidity, depending on our outlook of the commodities. And again, at this point, we are comfortable with our hedge positions as we look forward over the next couple of years.

Maybe just one more item to consider around COGS is we also are expecting some depreciation benefits as we are cycling out of a five-year period of the asset fair value exercise, which related to the MillerCoors acquisition. So, you'll see some benefits coming out of that. Other than that, we've got a number of actions across our supply chain, and other levers that we can pull to deliver our top and bottom line, but the COGS outlook is built into our bottom line guidance.

And then just in terms of EBITDA, I mean, really, the intention is to more closely align the metrics guidance, metrics with our revitalization plan goal. So that's all about driving both top and bottom line growth. There's no intention other than that. We just want to more closely align with how we run the business. So again, we have added the other metrics that hopefully will get you to an EBITDA range, I mean, without giving you specific numbers. But yeah, that's it, Steve.

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

Thanks, Tracey. Thanks Steve.

Steve Powers Q
Analyst, Deutsche Bank Securities, Inc.

Thank you.

Operator: Thank you Steve. Our next question comes from Nadine Sarwat with Bernstein. Nadine, your line is open. You can go ahead.

Nadine Sarwat Q
Analyst, Bernstein Autonomous LLP

Hi guys. Thanks for taking my question. I want to push a little bit more on gross margins. Tracey, I know, you mentioned and provided some helpful color on all of the moving parts. And in your prepared remarks, you did say that gross margins were going to continue to be pressured. But pushing in a little bit more on that, can you give more precise expectations as to gross margins for this year? What I'm trying to understand is, do you expect to be able to take enough price plus that positive mix to offset the COGS pressures? Or should we be expecting gross margin compression on a year-on-year basis? Thanks.

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

Nadine, maybe I can start on that one. I mean – but you've given all the components of it, right? So but I mean if you look at our P&L, obviously, we had a strong push in our revitalization plan to change the shape of our portfolio. And I think we've been pretty successful at that last year. I mean – as I said, our brands are healthy, our mix is really strong. Coors Light, Miller Lite, our core brands have grown very nicely.

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So you've got a couple of things going on in the top line. You've got the pricing, which I referenced, I gave you the US pricing, but obviously, there's pricing in Europe and Canada coming through as well. We've got strong positive mix that will come through as our portfolio reshapes into above premium. We cycled past the economy portfolio in the first and second quarter will drive positivity from an overall margin point of view.

We do have the emerging growth, which is all operating in the above premium, and we're going to continue to invest in our business. We're going to continue to put money into marketing. We made that, Tracey made the point. We were very choiceful in December once we realized that Omicron was going to impact us. We very choicefully chose not to pull the marketing lever, because we – our brands are reacting so well to the marketing, and we wanted to set ourselves up for a strong 2022, and so that was choice. But then we are going to increase marketing, as Tracey said, in 2022, both in the US and all of our other markets. So, we've got a lot of levers. And I'm not going to repeat everything Tracey said about the cost of goods sold line and all the levers that go in there. But we've got some positive momentum in the topline. Thanks Nadine.

Nadine Sarwat
Analyst, Bernstein Autonomous LLP

Q

Thank you.

Operator: Thank you, Nadine. Our next question goes to Chris Carey with Wells Fargo. Chris, your line is open, you can go ahead.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Hey everyone. Thanks for the question. So, Gavin, I'm trying to just understand a little bit on the – and it is a question on [audio gap] (52:20) just how you're thinking about channel mix in 2022. And you did say that the EBITDA would have been kind of like in line if Omicron had not created the volatility at the end of the quarter. But sales came in line, which I suppose implies a margin impact and specifically channel mix with the on-premise.

And if I just run that math on the difference between the full year guide and what kind of came through, maybe it's like a $70 million difference or a few hundred basis points on margin. Is that how we should be thinking about just the potential benefit of channel mix going into next year as a potential offset in your business. Tracey did mention that in the COGS per hectoliter, it is a tailwind to the business just because of different packaging mix, and you're going to get some volume leverage.

So, I mean, clearly, we're all trying to figure out how the COGS per hectoliter versus MG&A dynamic plays out. And if you could just maybe offer some perspective on what you think the channel mix, the EBITDA in the quarter. And I guess, really, how we should be thinking about potential tailwind of the business on a profit and margin impact going into next year?

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

A

Right. Chris, yeah, lots going on in that question. Let me see if I can help. Look, I mean I think it's safe to say that in the fourth quarter, we were expecting our revenues to be higher than what we actually ended up with. So, although we met the guidance of mid-single digits, our expectation at the end of October was that was going to be higher. And obviously, it wasn't because of the Omicron impact. But there's a range there, right, of I think mid-single-digit guidance of [ph] 3.6% to 7.4% (54:16) roughly, right? So, we were expecting that number to be higher.

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From a channel mix point of view, obviously, particularly in Europe, it's very positive for us when the on-premise is open, we're extremely efficient at that and the margins are good. In the US, the margins are also good in the on-premise for us, mostly because we skewed higher on the above premium portfolio than we do on economy, for example.

I mean, brands like Blue Moon, Peroni, Pilsner Urquell in the US are all higher margin, higher revenue brands. So, when the on-premise is open, we benefit from that. And Miller Lite and Coors Light also disproportionately over-index versus some of the lower-margin brands in the on-premise. And you have the same impact in Canada and you have the same impact in Europe. So, when the on-premise runs into some challenges, obviously, that has a – that's mix negative for us everywhere, but particularly in Europe.

As we head into this – the sort of 2022. Obviously, we've got some tailwinds behind us. I mean in the first quarter, we had the well-publicized challenges of the Texas storms and the cybersecurity attack. And in Europe, we – as I recall in the first quarter last year, we were pretty much shut down in the on-premise for, I think, the whole first quarter, which obviously we don't have – well, we did a little bit in January. But certainly, I think as of either this Monday or last Monday, they've pretty much opened up the UK completely, which will obviously be positive for us.

And so we've got some positive tailwinds behind us from that perspective. And they happen to be positive tailwinds from a channel point of view because that – we make more margin there. And then of course, we've got the negative headwind of cycling the economy portfolio change, which we've got, I don't know, four or five months left of starting on the 1 January. But from a margin point of view, that's actually very positive for us. So hopefully, that's helpful, Chris.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Yes. Thanks, Gavin.

Operator: Thank you, Chris. Our next question goes to Laurent Grandet from Guggenheim. Laurent, your line is open. You can go ahead.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Thank you. And thanks for squeezing me in. Two questions actually on the top line as a significant probably part of your assumption. So I would like to understand what are you expecting in terms of hard seltzer category growth for this year and seltzer you are planning to achieve, thanks to Topo Chico and Vizzy?

And how should – what to expect for Simply? I know it's not a hard seltzer but a different one. And finally, if you can help me try to figure out how much ZOA contributed to the growth of your emerging growth division? Thank you.

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

A

Thanks, Laurent. And on Simply, look, I mean, obviously, we haven't even launched it into the market yet. So, all I can tell you is how the retailers, distributors and consumers are reacting to it. And they reacted extraordinarily positively to Topo Chico, which is doing amazingly well for us.

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The reaction to Simply has been even stronger than that. The number of households that have Simply in the – one in two households in America, it's a very well-known brand. So if we just go by reaction that we've had for retailers, distributors and from consumers, we're going to get more than our fair share of shelf space in the sort of above, more flavorful area, which is probably where we've lagged a little bit this year. We're tapping into a new segment of flavor for us. And so we haven't done anything yet, but the reaction has been particularly strong.

If you look at emerging growth, it's got three big components to it, it's a solid base business, right? We've got our distribution business, our craft business in Tenth and Blake and then our Latin American business. Latin America contributed, as I said in our opening remarks, really strongly. But non-alc which comprises ZOA and La Colombe, for all intents and purposes, were coming off a zero base of revenue coming into 2021.

So a good chunk of the growth that we've experienced in the emerging growth has come from non-alc, which is ZOA and La Colombe, Laurent. I'm not going to break out by brand what that is, but you can assume that big contributors to that growth were Latin America and our non-alc businesses. I think those were the two biggest drivers of us being ahead of plan. Thanks, Laurent.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

And regarding hard seltzer, sorry, if you can tell us basically what's your assumption in term of category growth? And what your...

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

A

Well, look, I mean, from a hard seltzers point of view, Laurent, I mean, obviously, it was growing very strongly. It came off a lot, but it still grew low teens in 2021. We've got two fastest-growing seltzers in – of any major beverage company, they are differentiated, we got a lot of momentum behind them, and we think we can do really big things with those two brands heading into 2022.

I mean, we've got two of the top five seltzer brands. So we think we're well positioned to take share and grow. It's a big segment, Laurent. I'm not going to put a number as to what we assess that it's going to grow. But, frankly, it doesn't – we can gain a lot of share in this space, whether the seltzer category grows or doesn't grow because of the two brands and offerings that we have. Thanks, Laurent.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Thanks. Appreciate it. Thanks.

Operator: Thank you, Laurent. Our next question goes to Lauren Lieberman with Barclays. Lauren, your line is open. You can go ahead.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. Good morning. I wonder if you could hone in maybe a little bit on expected volume performance for 2022. Just knowing, I guess, a, the comments on, rightfully so, on elasticity and really just sort of not knowing. But if I back into kind of the comments you've made on pricing, mix still being positive, I would assume, given the above premium growth.

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It sounds like you're planning for volume to be flattish, I'm guessing. And specifically, [indiscernible] (1:01:33) STRs and thinking about the category backdrop, the degree to which – if that flattish volume thought-process is right, that implies continued market share gain across the portfolio? Or if that's more of a kind of in-line performance as you're thinking about how things may well play out next year? Thanks.

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

Well, Lauren, look, I'm not going to give volume guidance. But what I can say to you is, in the fourth quarter, obviously, the entirety of our loss was driven by the rationalization of our economy portfolio. Above premium grew and our premium lights grew in the fourth quarter. Now, obviously, there was an element of stock build in the fourth quarter for some of our premium light brands. But our driving to above premium is reaping a benefit.

Honestly, we came within a whisker of being positive from a volume point of view for the whole year for Miller Lite and Coors Light. In fact, I would hazard a guess that if we didn't have the Omicron virus in the last six weeks that we might well have got there if we hadn't had the curtailment in the on-premise.

So I don't want to repeat myself from earlier comments, Lauren. But we are expecting a headwind [ph] to pile (1:02:49) on the economy portfolio. It's a very deliberate decision. We think it's the right decision. It's a large focus for us. That was to focus in on four economy brands. It removes a ton of complexity from our supply chain, which has really helped us to rebuild our inventory levels to levels that we haven't seen for a while and really improve the service to our distributors on the brands that really matter, which is Miller Lite, Coors Light and our above premium portfolio. So absent another variant in 2022, we think we're well placed from an overall portfolio point of view. Thanks, Lauren.

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

Okay. Thanks so much.

Operator: Thank you, Lauren. Our next question goes to Bryan Spillane with Bank of America. Bryan, your line is open. You can go ahead.

Bryan D. Spillane
Analyst, Bank of America Securities
Q

All right. Thanks. Good morning, Gavin. Good morning, Tracey. Just one question – and Tracey, you touched on this a little bit, I think, in the prepared remarks. Just can you give us an update on where we stand now in terms of the progress on the investments that you've made in the brewing – in your brewing facilities?

So there's – I think you referenced Montreal. There's an upgrade going on in Golden, there's the seltzer capacity. Just kind of where we stand on those projects and maybe the contribution that we're getting from cost savings related to that? And then if you could, just give us a perspective on what it implies for capital spending for 2022? And then maybe just are we in the right range in this mid-500s as an ongoing CapEx?

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

I think that was for you, Tracey.

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

A

Yeah. Okay. So, let me start and then, Gavin, you just jump in here. So, I mean, we – if we just start with our Canadian breweries, our new Montreal brewery, state-of-the-art brewery that we're building just outside of Montreal, that actually came online at the end of last year. We still have some IT projects around bringing the Canadian business on to our US ERP system. So that's going to continue at least into this year, maybe a little bit more into the early part of next year.

And then we've got the transformation and the modernization of our Golden Brewery. That's a multiyear project. So that's still ongoing. The investments in our hard seltzer capabilities, we're putting in capabilities in Canada and the UK. So that will be this year and next year, that's big project. And then also our packaging upgrade projects that relate to sustainability of our packaging, et cetera, that's ongoing. So I'd say those are the three big projects. Now, we haven't given specific CapEx guidance, but what we do expect is our CapEx to return to more historical levels. So if you have a look at around 2019 type of spend, you can expect that for this year.

Bryan D. Spillane
Analyst, Bank of America Securities

Q

Okay. Thanks. That's really helpful. And just, Tracey, if you could just – I guess if you could just give us a sense of just how much incremental savings or productivity efficiencies, just like how much more we could expect incremental from here?

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

A

Yes. I mean, I'd just refer you to our cost savings program. So we – so right at the beginning of revitalization, we spoke about $450 million of cost savings primarily related to the COGS line. So that would include the Montreal brewery, some of those types of efficiencies that we put in place. And then a $150 million of the revitalization program was primarily around the G&A areas. So, we [audio gap] (1:07:00) $490 million of that $600 million, so the balance will be delivered this year. And again, the majority of that would be related to the COGS line. So, the more efficient breweries and the lower cost breweries. But I'm not sure that I can say much more than that other than it is included in that cost savings number.

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

A

The only other thing I'd add to that, Brian, is obviously we have been pretty clear, open about the fact that as we bring seltzers into our own facilities, so the margin impact is very positive for us, right? And we started bringing Vizzy in last year into Fort Worth and we'll bring Topo Chico in 2022. And in Canada, we'll bring those in-house, and we'll do the same in the UK. And that's really positive from a margin point of view.

And then, obviously, Tracey mentioned Montreal, right? That brewery there was a couple of hundred years old, and we've replaced this with a state-of-the-art brewery and it has meaningful cost benefits for us.

Bryan D. Spillane
Analyst, Bank of America Securities

Q

All right. That's really helpful. Yes, thank you. Thanks both.

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Operator: Thank you, Brian. Our next question goes to Dara Mohsenian with Morgan Stanley. Dara, your line is open. You can go ahead.

Eric Adam Serotta
Analyst, Morgan Stanley

Q

Hi. This is actually Eric Serotta in for Dara. Good morning. First – main question is I want to circle back on with shelf space, seemingly potentially a lot of shelf space up for grabs if the expected trimming in hard seltzer – marginal hard seltzer SKUs happens. Just your thinking about that in terms of opportunities for Molson Coors, what you're looking at in terms of shelf space position? Who do you think other than Topo Chico is picking up that? And in the broader context of spirits having one of its best years last year in memory and RTDs being particularly hot. What kind of risk do you see for some of the core brands in terms of shelf space and retailers that are able to hold – to carry spirits and RTDs?

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

A

Thanks Eric. Yes, you're right. I mean, spring is where most of the comprehensive change from a reset point of view takes place. And that's when most of the large innovations are actually launched. And our team are selling our purpose drives purchase category management strategy, where we believe that all decisions start with occasions. And, therefore, all segments matter, and getting the call right for retailers in those segments is really important. And, obviously, innovation is incredibly important to that as well.

So our team is focusing driving productivity on our core brands, Coors Light, Coors Banquet, Miller Lite, Blue Moon Belgian White, and Leinenkugel's, particularly Summer Shandy. And at the same time, we're selling what I think is one of the most focused and exciting innovation pipelines that we've had in years with Topo Chico Hard Seltzer and Vizzy Mimosa and Topo Chico Margarita and Simply Spiked and Blue Moon Lightsky Tropical Wheat, it's really focused and exciting. And with that strong performance in our core, which we're experiencing as well as the innovation we bring, we are expecting to see expanded shelf space for our business in the spring, and that's what we're striving towards. Thanks Eric.

Eric Adam Serotta
Analyst, Morgan Stanley

Q

Great. Thank you.

Operator: That concludes our question-and-answer session. I will turn the conference back over to the management team for any closing remarks.

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

Thank you. Greg.

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

All right. So thank you very much, everyone, for joining us today. Thanks, Gavin and Tracey, and we appreciate all of those who were able to ask questions. Tracey Mangini and I are very happy to follow-up on any additional questions that you may have over the next couple of days. So with that, thanks, everybody, and have a great day.

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Operator: That concludes today's call. Thank you for your participation. You can now disconnect your lines.

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