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CORPORATE PARTICIPANTS

Greg Tierney

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

Gavin D. K. Hattersley

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

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

OTHER PARTICIPANTS

Kevin Grundy

Analyst, Jefferies LLC

Nadine Sarwat

Analyst, Bernstein Autonomous LLP

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Laurent Grandet

Analyst, Guggenheim Securities LLC

Bryan D. Spillane

Analyst, Bank of America Securities

Eric Adam Serotta

Analyst, Morgan Stanley

Robert Ottenstein

Analyst, Evercore Group LLC

Christopher Carey

Analyst, Wells Fargo Securities LLC

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Brett Cooper

Analyst, Consumer Edge Research LLC

Andrea Teixeira

Analyst, JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Molson Coors Beverage Company First Quarter Fiscal Year 2022 Earnings Conference Call. 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; Tracey Joubert, Chief Financial Officer.

And 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.

All right. Thank you, Brika, and hello, everyone. Following our 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 your first question, and then ask you to reenter the queue for any additional 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, 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. GAAP reconciliations for any non-US GAAP measures are included in our news release. 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.

So with that, over to you, Gavin.

Gavin D. K. Hattersley

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

Thank you, Greg. In the first quarter of 2022, Molson Coors continued to generate positive trends, giving us continued confidence in our ability to meet our full year guidance. We grew the top line by double digits and the bottom line on an underlying basis by triple digits. Top line growth has historically been a challenge for this business, but through our strong execution of the revitalization plan, we have now grown the top line for four consecutive quarters.

The top line growth we generated in the last quarter was our largest quarterly top line growth in over a decade. Our core brands continue to outperform their peers. Our global above premium portfolio continued to grow, again achieving a record portion of our overall portfolio by volume and revenue.

To put a finer point on it, in the US the economy segment accounted for more than 100% of our volume decline, following our decision to streamline and strengthen this part of our portfolio. Our expansion beyond the beer aisle continues meaningfully, as ZOA generated its largest sales month ever this March. And we continue to invest in our capabilities, most notably with a project that also increases the profitability of one of our fastest-growing beverages, Topo Chico Hard Seltzer.

Collectively, these are the core tenets of our revitalization plan we laid out for you over two years ago, and it is very heartening to see our business generating consistent results in each of these areas. Our core brands globally had another very strong quarter. In Canada, Coors Light grew share of the beer category, and our national champion brands in EMEA and APAC saw significant improvements with the reopening of the on-premise channel.

You will recall that pubs in the UK were closed the entire first quarter of 2021. But by the end of the first quarter of 2022, beer sales in pubs were back to 98% of pre-CORONA virus levels. And this was particularly beneficial to our Carling brand, the largest beer brand in the UK. As a result, in the first quarter, the EMEA and APAC business unit substantially improved its earnings and nearly doubled versus 2021 revenue. In fact, we exceeded our EMEA and APAC first quarter 2019 revenues, which is a fantastic sign and further evidence of the value of increasing marketing spend behind our brands there.

In the US, Coors Light and Miller Lite continued their strong performance, made possible due to a multiyear approach that is clearly bearing fruit. These two brands compete in the same segment. So for years, it seemed virtually impossible to get them both moving in the right direction at the same time. In the late summer and early fall of 2019 under Michelle St. Jacques, our Chief Marketing Officer, her marketing team made an intentional decision to bifurcate how we market these two brands. [ph] Successful, (04:36) what makes them unique in the marketplace and how they show up in ads.

You can see that in the Coors Light "Made to Chill" campaign and in Miller Lite's work since then. Coors Light's "Made to Chill" campaign generated an immediate improvement in brand health in 2019, and that improvement has held since. And ROI on the marketing campaigns for our premium light brands has significantly grown. Combined, our new approach, better marketing and increased investment as on-premise restrictions have eased, resulted in sequential improvement over the past few years.

Coors Light went from being down mid-single digits in net sales revenue in 2018 to growing by 4% in 2021. Volume also went from down mid-single digits to nearly flat in 2021. Miller Lite went from 0.5% down net sales revenue in 2018 to growing 7% in 2021, and the brand's volume went from down 2.1% to almost nearly flat in 2021. And in the first quarter of 2022, we again grew revenue for both brands and generated the best combined industry share performance in 5 years.

And while our core brands have been building strength over the past two to three years, we have continually grown our above premium portfolio across each business unit. We have now grown our share of net sales revenue in above premium for 5 straight quarters and above premium net sales revenue now represents over 26% of our global portfolio on a trailing 12 month basis. A record for this business since the 2016 MillerCoors acquisition. We again enjoyed the largest growth in US seltzers of any major brewer. That's been fueled in large part by the successful national launch of Topo Chico Hard Seltzer, which is the fastest-growing major seltzer in the country.

We only see further upside for this brand as we introduce the new Margarita packs. And with respect to investments in our capabilities, I would note that in the first quarter, we completed a capital project at our Fort Worth brewery. This project allows us to begin to bring the US Topo Chico Hard Seltzer production inhouse, improving our profitability with the brand. Our share of the hard seltzer market in Canada continues to be very strong with impressive performance by both Vizzy and Coors Seltzer.

We expect to see those results only improve further when we introduced Topo Chico Hard Seltzer to the Canadian market next month. But our premiumization is also being driven by growth in above premium beers around the world.

Pravha a relatively newer pilsner from Staropramen has earned strong results in Central and Eastern Europe and has now launched in Romania. This will be its second largest market to-date. And we believe this expansion has the potential to dramatically increase Pravha's volumes.

Madri is performing well beyond expectations in the UK with distribution in over 6,000 on-premise accounts with strength in the on-premise alone earned Madri a spot as one of the top 25 UK beers and in March we launched it in the off premise. In Canada, Molson Ultra has posted 47% volume growth in 2019 to 2021. And just last month, we launched a new campaign to fuel momentum. And our Canada's craft business Six Pints grew 5 times the growth of the total craft segment in Canada in the first quarter.

In the US, both Blue Moon and Peroni saw double-digit net sales revenue growth in the first quarter as they benefited from the on-premise recovery as well as strong results off-premise. And there is more premiumization coming, most notably as we launch Simply Spiked Lemonade in the US next month.

We are pleased to bring this highly anticipated product to the growing flavored alcohol beverage space, as our next major initiative with Coca-Cola. We also continue to drive the scale beyond beer, particularly with ZOA.

The brand continues its strong growth, achieving a record sales month in March, and the data behind those results suggest a very bright future for ZOA. After a year in the market, its retail sales and distribution numbers broke records for a new entrant in the healthy energy drink category.

There are, of course, other promising signs in our work to expand beyond beer. Five Trail, our first full strength bottled spirit has now expanded to two more states based on the strong results from its initial four markets. And La Colombe is growing rapidly.

While the ready-to-drink tea and coffee category is up 1% in dollar share per IRI in the first quarter, La Colombe is up 17%. Collectively our emerging growth division remains well on track to achieving its \$1 billion annual revenue goal by the end of 2023.

As we continue to execute our revitalization plan around the world, we continue to turn around our entire business. Our improving results which we are now generating quarter after quarter give us continued confidence in our ability to meet our full year guidance.

But it's not necessarily a straight path over each quarter. There are unique headwinds for our business in the second quarter and tailwinds for our business in the second half that we believe keep us on track to achieve our full year guidance.

And Tracey will go over those in more detail. There are also broader issues and trends happening outside of our business that we are monitoring closely. First, inflationary pressure, we have multiple levers, including pricing, premiumization, our hedging program and our cost savings program to mitigate inflationary pressure.

They have been huge assets, but inflation is a real and growing challenge, and we anticipate the impact of inflation will worsen over the course of the year. It's important to note though that we are not seeing raw material shortages.

Globally, we continue to have access to the materials we need to produce, package and ship our beverages. As we head into the peak selling season, we are in our best US inventory position since before the pandemic.

And we continue to see out-of-stock levels on our core SKUs at or below pre-pandemic levels. Second, consumer behavior, for example, volumes are universally soft across the US beer industry to start the year.

This was most pronounced in January, as a result of the surge of the Omicron variant. While there has been improvement in February and March, it hasn't been at the pace we would have expected or that we saw after previous waves of the pandemic.

I would point out though that Molson Coors industry share trends have continued to improve, both in the quarter and into April. In fact, the US saw its best quarterly dollar share trend in over seven years this past quarter.

Despite high inflation in our biggest global markets, consumers continue to trade up, not down. And while it may seem counterintuitive, this trend is consistent with consumer behavior in the recent economic downturns. However, should that change and should trade down actually occur, our economy portfolio is well positioned to capitalize. The SKU rationalization we conducted in the US in 2021 didn't just make our economy portfolio smaller, we made it stronger and more efficient. By focusing on four key brands in four key verticals, instead of managing a long tail of smaller brands, we are able to put more effort and energy behind our biggest brands in the economy space.

And finally, the Russian war in Ukraine. We quickly stopped all exports to Russia and paused the licensed production of our other brands there. Collectively, however, the Russian, Ukrainian and Belarusian markets account for a very small portion of our global business, and we have no breweries there. So it has had minimal direct impact on our global business.

Rather our focus has been on arranging safe passage, accommodations and financial support as is needed for our Ukraine based colleagues and for the Ukrainian friends and family of other colleagues in the business. And while we will continue to monitor consumer health in Europe, along with the cost of and access to input materials, we have been able to manage these challenges to date for our business.

In summary, it was another positive quarter for Molson Coors, another quarter of successful execution on our revitalization plan and another quarter of continually improving results for this business. And all of this was achieved in a very challenging macro environment that we are continuing to monitor closely. Folks, we're delivering in ways this business has not done for many years, and our future is bright.

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

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin, and hello, everyone. As Gavin highlighted, while macro trends have been challenging, we had a strong first quarter, delivering double-digit top line and triple-digit underlying bottom line growth. We achieved our highest quarterly top line growth in over a decade as we continue to premiumize our product portfolio through the execution of our revitalization plan. While we, along with the rest of the world, are facing inflationary pressures, our efforts over the last two years have built a strong foundation for future growth and have given us confidence to reaffirm fiscal 2022 guidance for both top and bottom line growth.

Now, I'll take you through our quarterly performance and our outlook. Consolidated net sales revenue increased 17.6% with strong growth in both our EMEA and APAC and Americas business units. On-premise net sales revenue has not yet returned to pre-pandemic levels in all markets. But as on-premise restrictions have eased, we have seen sequential improvement in the on-premise net sales revenue performance with variations by market.

Consolidated net sales revenue growth was driven by strong global net pricing, favorable sales mix from portfolio premiumization, positive channel mix as we cycled significant on-premise restrictions in the prior year period, and we also delivered higher financial volumes. Consolidated financial volumes increased 5.1%, largely driven by strong brand volume growth in EMEA and APAC, higher contract and factored volumes, and cycling of lower US distributor inventory levels in the prior year. This was partially offset by a decline in Americas brand volumes, which was driven by lower US economy brand volumes as a result of our economy SKUs deprioritization and rationalization program implemented in the second quarter of 2021.

Net sales per hectoliter on a brand volume basis increased 10.2%, driven by global net pricing growth and positive brand and channel mix with premiumization delivered across both business units. Net sales per hectoliter on a brand volume basis, which is an important metric from which to measure our progress against our revitalization plan, increased 12.2% compared to the first quarter of 2019. Underlying COGS per hectoliter increased 8.6%, driven by cost inflation, including higher input and transportation costs, as well as the mix impact from premiumization and factored brands in Europe, partially offset by lower depreciation expense.

Underlying MG&A in the quarter increased 15.7%, largely due to our planned increases in marketing investment, which surpassed first quarter 2021 and 2019 levels to provide strong commercial support behind our core brands and new innovations. G&A was up due to higher people-related costs, including increased travel and entertainment. As a result of these factors as well as lower interest and depreciation, underlying net income before income taxes increased 383.1%.

Underlying free cash flow used was \$359 million, an increase of cash used of \$271 million in the same period last year. This increase in cash used was primarily due to higher capital project spending, partially offset by favorable timing and working capital. Capital expenditures paid were \$244 million, and focused on expanding our production capacity and capabilities programs, such as our previously announced Golden Brewery modernization projects and expanding our hard seltzer capacity in Canada and the UK.

Now let's look at our results by business units. In Americas, the on-premise has not returned to pre-pandemic levels, but continues to improve on a sequential quarter basis. In the first quarter, the on-premise channel accounted for approximately 15% of our net sales revenue compared to approximately 18% in the same period in 2019. In the US, on-premise net sales revenue was about 87% of 2019 levels. And in Canada, on-premise net sales revenue was about 55% of 2019 levels because even though the on-premise restrictions continued to ease, they still impacted results.

Americas net sales revenue was up 8.5% as net pricing growth across the business units and positive brand mix was partly offset by lower volumes. Americas financial volumes decreased 0.8%, largely due to 3.1% lower brand volume partially offset by cycling lower US distributor inventory levels due to the March 2021 cybersecurity incident and the February 2021 severe Texas storm. In the US, net sales revenue grew 8.9%, with domestic shipments down 2%, outpacing brand volume declines of 4.3%. More than 100% of the US brand volume declines were due to lower US economy brand volume.

In the US, our economy portfolio was down high-teens, while our above premium portfolio was up mid-teens for the quarter. In Canada, net sales revenue increased 4.1% as brand volume declines of 4.5% due to softer industry performance and more than offset by positive pricing and mix premiumization.

Latin America net sales revenue increased 29.7% on brand volume growth of 13.8%. Net sales per hectoliter on a brand volume basis increased 9.8% with strong net pricing growth and favorable US brand mix. US net sales per hectoliter increased 11.1%, driven by net pricing growth as we took pricing earlier than usual this year and positive brand mix led by above premium innovation brands.

Net sales per hectoliter on a brand volume basis grew high single-digits in Canada due to net pricing increases and positive sales mix, while Latin America increased low double-digits due to favorable sales mix. Americas cost per hectoliter increased 6.7% due to inflation, including brewing and packaging materials and freight, as well as mix impact from premiumization, partially offset by lower depreciation.

Underlying MG&A increased 14.7% as we increased marketing investments behind our core brands and innovations, including the national launch of Topo Chico Hard Seltzer as well as in local sponsorship and events, as pandemic-related restrictions eased versus the same period last year.

G&A was up as well due to increased people-related costs and legal and travel and entertainment expenses. Americas underlying net income before income taxes increased 9%.

Turning to EMEA and APAC, net sales revenue grew 92.3% driven largely by Western Europe, but we also experienced growth in Central and Eastern Europe. Top-line performance also benefited from fewer on-premise restrictions in the UK compared to the full closure in the first quarter of 2021.

The UK on-premise channel net sales revenue exceeded pre-pandemic levels in the quarter. EMEA and APAC net sales per hectoliter on a brand volume basis was up 30.1%, driven by positive sales mix with the on-premise reopenings and above premium brands reaching another record high portion of the portfolio as well as net pricing growth.

EMEA and APAC financial volume increased 29.4% and brand volumes increased 19.8%. The increase is primarily due to higher UK volumes, partially offset by declines in Central Europe and our export and license division.

Strength in our core brands like Carling and new innovations like Madri led to strong double-digit growth in above premium and premium volumes, partially offset by double-digit declines in the economy.

COGS per hectoliter increased 29.3% due to rising inflationary pressures and increased factored brand sales. MG&A increased 19.4% as we cycled mitigation efforts to lower costs in the prior year with on-premise restrictions and higher marketing investments to support our brands and fuel on-premise strength.

EMEA and APAC underlying net loss before income tax improved 62.1%. We ended the quarter with net debt of \$6.9 billion and a trailing 12-month net debt to underlying EBITDA ratio of 3.28 times compared to 3.14 times as of the end of 2021.

With the first quarter typically being a cash use quarter, this leverage ratio was up from the fourth quarter, which is typical between fourth and first quarters.

Still, our leverage ratio remains substantially below the end of the first quarter of 2021 when it was 3.74 times. We ended the quarter with \$160 million of commercial paper outstanding, leaving us with strong borrowing capacity with \$1.34 billion available on a \$1.5 billion US revolving credit facility.

Now let's discuss our outlook. We are reaffirming our fiscal 2022 guidance, which calls for both top and bottom line growth in 2022, performance we had not seen in over a decade. Before we go through the guidance, I wanted to note that year-over-year growth rates are on a constant currency basis. Also, 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.

Additional risk factors include the impact of rising global inflation beyond that's currently anticipated and a prolonged strike at our brewery near Montreal. For 2022, we continue to expect to deliver mid-single-digit net sales revenue growth, high single-digit underlying income before income taxes growth and underlying free cash flow of \$1 billion, plus or minus 10%.

We expect to continue to be impacted by inflationary pressures in areas, including materials and transportation costs and expect those pressures to increase for the balance of the year. However, we intend to judiciously pull our multiple levers to help mitigate the impact.

As discussed on our fourth quarter call, we announced a 3% to 5% price increase early in 2022, which in the US, we took earlier than typical. Also, we have other levers to help offset inflation, including mix from premiumization and our cost savings and hedging programs.

In these unusually challenging times, we want to provide a bit more color on our quarterly outlook for the rest of the year. As Gavin mentioned, we have several headwinds and tailwinds that will impact our quarterly earnings phasing.

As a result, we expect our second quarter underlying income before income taxes to be down between approximately 20% and 30% from the prior year period. We expect stronger relative year-over-year performance in the second half of the year, enabling us to reach our full year guidance.

Now let me walk through those drivers. First, we are planning a double-digit increase in our year-over-year marketing spend in the second quarter, putting marketing investments well above 2021 levels. Recall, in the second quarter of last year, we had lower relative spending with – when our inventories were low due to the first quarter 2021 cybersecurity incidents and severe Texas storm, and we were still experiencing on-premise restrictions across all of our major geographies. We did not begin upspending until the second half of last year, investing above 2019 levels.

Second, our inventory position in the US heading into peak summer season is the best its been since before the pandemic. And last year, at this time, it was the lowest it has been in years. While the fact that we won't be playing catch up this year is taking a very positive development, it also means we don't expect our US STWs to be as high as they were in the second quarter last year.

Third, our ongoing strike at the Longueuil brewery and distribution centers near Montreal will have an impact on our second quarter results. And fourth, year-over-year top line comparisons will begin to get more difficult in the second quarter relative to the first quarter comparisons particularly in the UK, where the on-premise began to reopen in April 2021 with pent-up demand. However, these comparisons should ease in the fourth quarter given the renewed on-premise restrictions in the fourth quarter of 2021, particularly in the UK and Canada.

In terms of our other guidance metrics, we continue to expect 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, as we have a strong desire to maintain and in time, upgrade our investment grade rating. We repaid our \$500 million, 3.5% USD notes upon its maturity on May 1, 2022, using a combination of commercial paper borrowings and cash on hand.

Also, during the first quarter, we paid approximately \$14 million for 280,000 shares under our share repurchase program, which was approved by the Board of Directors on February 17, 2022. As a reminder, this share repurchase program authorized the company to purchase up to an aggregate of \$200 million of our Class B common stock through March 31, 2026, with repurchases primarily intended to offset annual employee equity award grants.

In closing, we remain confident in our strategy and pleased with our progress. These are dynamic and uncertain times, but what's clear is that we have built our business to manage through challenging times. Our demonstrated operational agility through the pandemic, our dramatic improvements to our financial flexibility, our successful cost savings program that has served to fuel targeted investments to support our core brands and key innovations have all further strengthened our business as we continue to drive toward our goal of sustainable long-term top and bottom line growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question from the phone lines today comes from Kevin Grundy of Jefferies. Your line is open.

Kevin Grundy

Analyst, Jefferies LLC

Q

Great. Thanks. Good morning everyone and congratulations on the strong results and continued progress. Why don't we start with your guidance and just the composition now, particularly between volume and net sales per hectoliter? Whether that's changed at all, given the strong start to the year and sort of offset maybe with what's clearly a more difficult cost environment?

And then within that now, Gavin, maybe you could just comment on how you see the progress for your key brands, particularly Coors Light, Miller Lite and well as some of the Beyond Beer brands, including Topo which are off to a really strong start. So thanks for that.

Gavin D. K. Hattersley

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

A

Thanks, Kevin, and good morning. Yeah, [indiscernible] (31:55) there's a lot in that question. Tracey, why don't you take the guidance question, I'll just cover off on Coors Light and Miller Lite.

Coors Light continues to perform very strongly throughout all of the Americas. It grew high single-digits in the US and Canada, we grew industry share, and we had strong double-digit growth in LatAm. So what's driving that? I mean, it's got a clear and differentiated positioning within the segment, driven by the 'Made to Chill' campaign.

We saw an immediate improvement in the brand health after we launched 'Made to Chill'. The campaigns are impactful. And we've seen a clear improvement in ROI. So that's Coors Light.

From a Miller Lite perspective, we've seen bright spots so far, with high single-digit NSR growth on Miller Lite, and its share continues to improve. And in Canada, Miller Lite is growing strong double-digits versus last year and in LatAm it's growing single-digits.

It's continuing to push its great taste point of view. And on top of this, we continue to land the brand into what's culturally relevant at the moment. And I pointed out J Balvin partnership and also being the first bar – our first brand to launch in a bar in the metaverse. So yeah, it's driving a clear point of difference around great taste. And we're going to continue to capitalize that.

I think you mentioned Beyond Beer as well, ZOA obviously is the star of the show for us there and as I said in my prepared remarks, we had our best month in the month of March, I think it was – it was our biggest sales month.

And we're obviously learning as we're going along, we recently pivoted the whole lineup to zero sugar SKUs, which is what the consumer really wants. It's gained share of the energy drink category sequentially in each quarter since we launched it. And it's now the 12th largest energy drink out there, picked up an additional stock since the end of 2021, so lots of bright spots, very happy with how we're doing there. Guidance, Tracey, do you want to give a little bit of color there?

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

A

Yeah. So hi, Kevin, yeah, I'll talk a little bit to the guidance and then touch on the volume versus revenue question, but as you know, 2022 guidance calls for mid single-digit top line growth and high single-digit underlying net income before income tax growth.

And what we are seeing that, even though the on-premise has not returned to pre-pandemic levels across all of our markets. We do feel confident in our guidance. In the UK markets, where we're more exposed to the on-premise, we've already seen restrictions lifted. And our on-premise volumes returned to about 98% of pre-pandemic levels. In other markets such as Central Europe, there was still some uncertainty as the Omicron wave hits a little bit later, we've seen improvements as well.

In Canada and in the US where our on-premise revenues typically represent around 16% of revenues and we continue to see sequential improvements each month, even though trading does remain below the pre-pandemic levels.

So, just from the bottom-line guidance as we look at our rising inflationary cost, I mean, we've seen that on certain commodities and packaging materials for sure. And, the freight markets still remains quite tight, that we've got multiple levers to help mitigate that. So we spoke about pricing, we got really strong pricing and revitalization is around premiumizing our portfolio and you see that coming through now.

And then we've got our hedging and cost savings program which will help mitigate some of that inflation. So, as we look at the balance of the year, we do expect to see channel and geographic mix benefits as we cycle some of the second quarter restrictions that we saw in EMEA and APAC. This will have an overall lower COGS per hectoliter. And then, one other item is just we've seen some benefit from our depreciation expenses, as we cycle the five year period of asset fair value exercised on the Miller Coors acquisition, so – I know I've put a lot into that, but hopefully it gives you some color around how we're looking at volume and how we're looking at revenue and certainly guidance – reaffirming the guidance for the full year.

Kevin Grundy*Analyst, Jefferies LLC*

Q

Okay. That's very helpful. Thank you.

Operator: Thank you. We now have next question from Nadine Sarwat of Bernstein. Sir, please go ahead. I have opened your line now.

Nadine Sarwat*Analyst, Bernstein Autonomous LLP*

Q

Hi, thank you. Two questions for me. So first of all, your US brand volumes down 4.3% on a relatively easier comp of minus 7.3% last year, from memory many brands had already started to be de-prioritized in Q1 last year. So could you help us understand what your US brand volume growth would have been without that component of de-prioritization and rationalization that you call out in your release?

And then just the second question on your Quebec strike, am I correct in understanding that the strike is still ongoing? And how soon are you at risk of running through all your inventory from pre-strike? Thank you.

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

A

Thanks, Nadine. I'll take those two Tracey. I'll start with Quebec first. Yes, the strike is still ongoing. We're obviously doing what we can to produce and ship our beers within the confines of the law and our hope is that the union come back to the negotiating table so that we can reach a reasonable agreement for all the parties. This point in time, obviously, there are some out of stocks, but we're continuing to produce and ship brand with our contingency plans.

As far as US brand volumes are concerned, look, I mean, we were very clear about the fact that we rationalized our economy portfolio last year, and that we would be facing those headwinds for a full 12 months and if you look at the first quarter, obviously the first month was tough because we had the Coronavirus impact, the Omicron variant which pretty much shut down the on-premise again. And we saw sequential improvements beyond that.

But just to remind you that we're going against the economy, SKU rationalization and brand elimination. We will start to cycle out of that in the second half of the second quarter and then obviously fully into the second half. 100% of our volume reduction in the US, in fact more than 100%, was driven by the economy portfolio, our premium light or premium and above premium portfolios collectively grew.

Nadine Sarwat*Analyst, Bernstein Autonomous LLP*

Q

Got it. Thank you very much.

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

A

Sure.

Operator: Thank you Nadine. We now have Lauren Lieberman of Barclays.

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

Q

Great. Thanks. Good morning. Okay, good. So just continuing on the question of Americas volume performance. So you commented on industry dynamics, right, that you're starting kind of soft in January related to COVID, but that the trends for February and March were a little bit softer than what you've seen in prior phases post the pandemic surge. So I was curious if, one, you could just talk about what you think is underlying that if you have any insights, how you're thinking about overall consumer demand in the category as we move into the key selling season?

And then I was intrigued by the fact that you said that premium and above premium volumes were still up in the quarter, even with your comments on February and March being a little bit softer from an industry standpoint. So do you think that these – that your brands can actually grow volume in a non-COVID up and down comps dynamic environment? Like are we to a point where Miller Lite, Coors Light could be in positive volume territory over time?

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

A

Yes. Lots in there as well, Lauren. Thanks.

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

Sorry.

Q

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

No problem. I mean, look, I mean, obviously it is our ambition and goal to drive both of those brands positively. And yes, 100% or more than 100% of the loss in the first quarter was driven by the reduction in the economy portfolio. We grew share – segment share in both premium and above premium in the first quarter. We had accelerating trends compared to the fourth quarter. And growth in share in premium was driven by Coors Light, Miller Lite and Coors Banquet, frankly. And growth in the above premium was driven mostly by ourselves with Topo Chico and Vizzy.

A

And although I'm calling out that economy was obviously a negative, we have started to see positive trends on economy for our portfolio between the fourth quarter of 2021 and the first quarter of 2022. And the hope is as we start cycling our focus on the four main brands that we'll see that get more positive.

From a consumer health point of view, we can draw a line there to trade down. And honestly, we're just not seeing that. In fact, we're still seeing the opposite. And obviously, we'll continue to monitor it closely. And if we do have trade down, I think our portfolio is uniquely positioned to benefit from that given the strength of economy brands that we've got and the current strength of both Miller Lite and Coors Light.

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

Great. Thanks so much.

Q

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

Sure.

A

Operator: Thank you, Lauren. The next question comes from Laurent Grandet of Guggenheim. Please go ahead, when you're ready.

Laurent Grandet*Analyst, Guggenheim Securities LLC*

Hey, good morning, everyone. I do have some quickly a follow-up on – from a previous question about your above premium portfolio. So what are you expecting for Simply Spiked that is about to be launched? Will Simply be produced in-house or through contract manufacturing? And what incremental margin should we expect from in-house manufacturing for Topo Chico kind of, roughly, if you can give us some direction there?

Q

And really, if I can ask another one. I mean on the price per hectoliter, your 10.2% outperformance in the quarter, what is it due to, net pricing, favorable product mix, favorable channel mix as you – as the on-premise is reopening. So, if you can give more color there, that would be helpful as well. Thanks.

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

A

Sure, Laurent. On Simply Spiked, we're on track to launch that in June of this year. Lots of excitement from our system, with our retailers, our consumers, what consumers are saying on social media ahead of this launch is anything to go by, it's going to be a very successful launch.

Which I guess is not entirely surprising, right? This is a powerful brand. It's Coca-Cola's second largest brand in the US only behind the Coca-Cola trademark brands. So, we're excited about it. It's launching a 12 pack and a 24-ounce can. And at the beginning, it will be produced outside of our production facilities.

Topo Chico is, as you say, we now produce it in-house, and we actually outsource it as well, whatever works best for us. We haven't been specific and detailed about the margin improvement, Laurent, but you can assume that it's a meaningful margin improvement for us when we do bring it in-house.

And then, I think your next question was on revenue, the 10.2%, half of that was due to net pricing. Remember, this is a global number. Half of that 10.2% was net pricing and the rest was a favorable mix and a few other odds and ends. Thanks, Laurent.

Laurent Grandet

Analyst, Guggenheim Securities LLC

Thank you very much.

Q

Operator: Thank you Laurent. We now have Bryan Spillane of Bank of America. Please go ahead. I have opened your line, Bryan.

Bryan D. Spillane

Analyst, Bank of America Securities

Hi. Thanks, operator. Good morning, everyone.

Q

Gavin D. K. Hattersley

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

Hey, Bryan.

A

Bryan D. Spillane

Analyst, Bank of America Securities

Hey, Gavin. I wanted to just ask a bit more about the economy segment in the US. And I guess, I don't know if this – if you can disaggregate this or not. But if you were to take a look at the big 4, so what you're focusing on, how are those brands performing? And I guess, as we begin to cycle past the SKU rationalization, will it begin to kind of contribute to the growth in the US? So just trying to get to understand when we look underneath the hood, my sense is the economy segment's actually performing better than what we see because of the SKU rationalization. But just trying to get a sense of how that's performing.

Q

Gavin D. K. Hattersley

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

Yeah. Sure, Bryan. Thanks. Without wishing to complicate things overly, right? There were two elements to the economy portfolio. One was new prioritization as we came out of the cybersecurity attack in the Texas storm. So, there were brands that we were not going to do – rationalize, but we were constraining the production so we could

A

focus in on Miller Lite and Coors Light. And then, of course, there's the SKU rationalization and the elimination of some of the brands, there were those two elements.

We came out of the sort of, how do I put it, paused SKUs earlier than the rationalization SKUs. So we should start seeing improvement in brands like Keystone, Miller High Life, Steel Reserve and Hamm's and already are even in the first quarter, Bryan. And that will accelerate as we start cycling some much easier comps. Probably as much detail as I want to get into, Bryan, without really decomposing between the brands, but your thesis at a high level is correct.

Bryan D. Spillane

Analyst, Bank of America Securities

All right. Thanks, Gavin.

Q

Gavin D. K. Hattersley

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

Sure.

A

Operator: Thank you, Bryan. We now have Eric Serotta with Morgan Stanley. You may proceed with your question, Eric.

Eric Adam Serotta

Analyst, Morgan Stanley

Great. It's Eric on behalf of Dara Mohsenian. Just a quick housekeeping question and then another question. First, from the housekeeping perspective, how much did the higher freight and fuel surcharge this year add to the US NSR per hectoliter? And then my main question is just what you're seeing in terms of Topo Chico as you're cycling last year's launch, how are those launch markets comparing – how are those – how is this year's performance in the launch markets comparing to where we were last year? And relatedly, what are you seeing in terms of rate of sale, velocity, trial in new markets as you've expanded that rationally, how do those new markets compare to the initial markets from last year?

Q

Gavin D. K. Hattersley

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

Got it. Thanks, Eric. On your housekeeping question, remember the 10.2%, which I was referring to earlier was a global number. And the US number was actually a little higher than that. It was percent higher than that. Roughly the same split, roughly half net pricing and half mix and other. And I'd say the freight and fuel is around 100 basis points, more or less, give or take, of the 11-odd percent net revenue per hectoliter increase.

A

As far as Topo Chico is concerned, remember, we only launched that brand nationally towards the back end, but it's already the number four brand in the segment, and it's growing. It's the first – to your velocity question, it's actually the third fastest turning in the segment. It's got the highest repeat rate of any brand that we've launched over the last two years. And it's got over a 5% share nationally already. And in major markets like Texas, it's already into the mid-teens from a share point of view. So, your question about launch markets and new markets, its holding strong in Texas which is where we launched it first of all. And we've got some exciting new stuff that we just put into the market for Topo Chico with margarita, we launched that last month. So, we're ready for our first – I mean we didn't have it nationally in the summer of last year and we are well positioned for our first national summer with Topo Chico. Thanks, Eric.

Eric Adam Serotta*Analyst, Morgan Stanley*

Thanks. I'll pass it on.

Q

Operator: Thank you, Eric. We now have Robert Ottenstein from Evercore. So please go ahead, Robert.

Robert Ottenstein*Analyst, Evercore Group LLC*

Great. Thank you very much. I'd like to follow-up on Topo Chico, which is – which you guys have done a fantastic job with. Can you talk a little bit what your team is telling you Topo Chico was drawing from, so any sense of what percentage is coming from other brands or is drawing new consumers into hard seltzers, new demographics, any data around that? Second, based on the momentum of the brand, do you think that at a 10% market share is realistic in the next one to two years? And then finally, we continue to get a lot of questions on exactly how the brand hits the income statement. So if you could review that again? Thank you.

Q

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

Thanks, Robert. Look from a from an overall Seltzer point of view, we've more than doubled our Seltzer share. Topo Chico is a big part of that. As I said it's the fourth largest Seltzer in the country, it's really the fifth largest. We've just launched the margarita variety pack. We've got Ranch Water out there now. And we still believe that 10% market share for us is our initial goal. And we certainly – our ambitions don't just stop there. And that's just in the US.

A

Frankly in Canada, we've already seen double-digit Seltzer share in some markets. In Quebec it's already mid-teens and – at a mid-teens level, and that's before we've even launched Topo Chico Hard Seltzer, which we're launching in the summer of this year. And of course, we've got first mover advantage in Europe with threefold and Wai Moment.

So we're off to a strong start in Topo Chico. I feel very good about it. And as far as the detailed financial metrics, I mean, that's obviously something between ourselves and Coca Cola. We don't – we're not going to break that down, but obviously it's positive for us or else we wouldn't be doing it. And to be clear, it comes through the P&L, right? So I mean, it's in our volume. It's in our revenue and it's in our margin and our bottom-line.

Robert Ottenstein*Analyst, Evercore Group LLC*

And any color on where its sourcing from?

Q

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

All right. Sorry, I forgot about that one. Yes. Look – it is sourcing in many respects in the same way that overall Seltzers are right which is more than half of it is coming from outside of the beer category. But it does play strong – more strongly with Hispanic consumers. So I would say we're probably taking a higher share of Hispanic consumers than the general seltzers would be taken.

A

Robert Ottenstein*Analyst, Evercore Group LLC*

Q

Great. Thank you very much.

Gavin D. K. Hattersley

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

A

Sure.

Operator: Thank you, Robert. We now have Chris Carey of Wells Fargo Securities. So, please go ahead when you are ready, Chris.

Christopher Carey

Analyst, Wells Fargo Securities LLC

Q

Hi, everyone. Thanks for the question. So just on the expected decline in Q2 profit. I just wonder, conceptually, how much of that is related to the investment. You noted the step-up in marketing spending versus like the higher COGS per hectoliter. You've also noted that inflation is stepping up.

And then just conceptually, as we head into the back half with the implied ramp in profit to get to the full-year guide, I appreciate spending timing is likely a factor, COGS per hectoliter may now be higher than your initial expectations? Can you confirm that?

Maybe just conceptually, is there anything that gives you confidence from launch timing, specific plans you have around product categories into the back half momentum in brands that gives you that confidence on the top-line. Clearly, price/mix is a very good story, and that I suspect it will remain so but perhaps on the volume side as well. So it's really just on kind of drivers of Q2, but then conceptually why things ramp from here and fundamentally sort of the brands and product categories that might be getting you there. So thanks for that.

Gavin D. K. Hattersley

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

A

Thanks very much, Chris. Tracey, why don't you get into the detail of this?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Yes, hi, Chris. Okay, so if I talked about Q2 phasing, and as you've heard me say, we expect our underlying pre-tax income to be down between 20% and 30% versus prior year. The main driver of that is our marketing investment. So we're expecting a double-digit increase in marketing. If you recall, we had a very low relative spend when our inventories were low last year this time due to the cyber incident and the Texas storm.

And then we still had on-premise restrictions across a fair part of our geographies in the prior year. We also – another driver of the Q2 phasing is really the higher inventory position that we're going into the summer this year, it's a much higher inventory position than we had last year, which was actually a really low inventory position. So we don't expect our STW to be as high as they were in the second quarter of last year.

The other thing impacting our Q2 is, Gavin, mentioned the strike at our Longueuil brewery and distribution centers near Montreal, that will have an impact on Q2 results. And then year-over-year, our top-line comparisons are a little bit more difficult in Q2 versus Q1, particularly in the UK where the on-premise began to open in April of 2021.

As it relates to the balance of the year and giving us confidence, I mean a couple of things to think about there. We expect continued top-line growth from both price and premiumization of our portfolio. And in the second half of

the year, we will also cycle out of the headwinds from the economy SKU rationalization and deprioritization that Gavin just spoke to as well.

And then, in Q4, we'll be cycling a period of lower sales in 2021, especially in the EMEA APAC region, which were impacted by Omicron at the back half of last year and the UK on-premise sale again. And then finally, we'll be cycling higher marketing and sales spend in Q3 and Q4 of the prior year, which increased last year, much higher than the year before, so 2019. And if you recall, we didn't spend as much in Q1 and Q2 of last year. And so you'll be seeing an increase in Q1 this year and a planned increase in Q2 of this year versus the back half of this year as well. So, just a couple of points of color, hopefully, that will help.

Gavin D. K. Hattersley

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

A

Thanks, Tracey. I mean, Chris, just to talk a bit on the marketing, right. As, I mean, we always said, we're going to invest behind our brands. And we've got brands with Miller Lite and Coors Light, and we've got brands in the above premium space that are really doing well, and we're going to invest behind that momentum. And then we've got the Simply launch, which takes place in Q2. So I think we've said from the beginning of the revitalization plan, we're going to invest behind the momentum we've got, and we're seeing that.

Christopher Carey

Analyst, Wells Fargo Securities LLC

Q

Gavin and Tracey, thanks so much for the perspective.

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

A

Thanks, Chris.

Operator: Thank you, Chris. We now have Steve Powers with Deutsche Bank. Please go ahead when you're ready, Steve.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yes, great. Thank you very much. Just a quick follow-up from me on the economy portfolio rationalization and deprioritization. Maybe could you just remind us what happened to the shelf and cooler space, you may have surrendered as part of that portfolio streamlining? I guess what I'm curious about as to whether or not any of that space may have migrated to the benefit of your premium and above premium portfolio just to keep that in mind as we potentially also cycle that in the back half? Thank you.

Gavin D. K. Hattersley

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

A

Thanks, Steve. Look, we had a very clear and detailed plan with our distributors by brand that was discontinued, by SKU that was discontinued to try and make sure that we filled it with the brands that we wanted there. Some of it would well have landed up in the Premium Light space, and some of it would have extended some of the brands that we kept in the economy space. I mean, I don't wish to be naive to suggest that we didn't lose some shelf space to our competitors. I'm sure we did. But our sales and guys in our distributors had a very clear plan to execute against, and they did that.

Steve Powers*Analyst, Deutsche Bank Securities, Inc.*

Okay. Thank you very much.

Q

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

Sure.

A

Operator: We now have Brett Cooper of Consumer Research. Brett, your line is open.

Brett Cooper*Analyst, Consumer Edge Research LLC*

Thank you. I was hoping you can give us some insight into how you look at attacking and prioritizing categories or parts of the industry in which you have a small presence today. So clearly, seltzer was – is a big priority, you've had success. But if you look at the beverage industry there's numerous opportunities. So, if you could touch on sort of thoughts or plans or just how you prioritize things like low-carb [indiscernible] (01:00:52) success in Canada? And then, I guess, obviously, you had the unfortunate timing with Saint Archer Gold or FMB's relatively low share. Just how you think about that and prioritize that as a company. Thanks.

Q

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

Well, I think you can see that in what we're actually prioritizing, Brett. So obviously, seltzers is a priority for us. It remains a priority, and we're pleased with the progress that we're making there. In terms of other prioritization, Simply is another example of that, right, going into the sort of FMB or flavored space. We're being much more choiceful than we perhaps were in previous years. We're making bets and putting focus on what we think are bigger ideas. And Topo Chico and Vizzy and Simply are exactly that.

A

Up in Canada, we have placed focus behind Molson Ultra. And in our Beyond Beer space, we're placing a significant focus behind ZOA. We understand that our distributor partners want focus, and we believe we're giving that to them, and it certainly helps our own internal system as well. So we're not going to be all things to all people in every single space possible. We're going to back what we think are the good ideas and the big bets for us.

Brett Cooper*Analyst, Consumer Edge Research LLC*

Great. Thank you.

Q

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

Thanks, Brett.

A

Operator: Thank you, Brett. Our final question on the line comes from Andrea Teixeira of JPMorgan. So, please go ahead when you're ready.

Andrea Teixeira*Analyst, JPMorgan Chase & Co.*

Q

Thank you, good morning and thank you for – well, good afternoon now. Thank you for letting me in. Can you please help us with the trends quarter-to-date in Q2. Tracey, you mentioned elevated levels of inventory and wholesalers in the summer and ahead of the summer. And as such, are you embedding kind of more of a mid single-digit decline in shipment for the Americas and also contributing to the decline in EPS, you quoted 20% to 30% pre-tax. And related to that, are you assuming – what are you assuming then in terms of volumes for the second half for the Americas because of that because of the hockey stick improvement?

Gavin D. K. Hattersley

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

A

Andrea, I mean, Tracey went through that in quite a lot of detail. So in the – when we talk about elevated inventories, all – I think the point Tracey was trying to make was we had very low inventories at the end of first quarter last year because of the cybersecurity. And this year we don't. So you know, as I said, our inventory levels are where we want them to be going into summer and we've worked very hard at that. Our out of stocks, particularly in our SKU, our core SKUs are lower than they were pre-pandemic, so we're well positioned and there just isn't an out of stock problem in our organization.

Andrea Teixeira

Analyst, JPMorgan Chase & Co.

Q

Maybe it would be helpful, then quarter-to-date April numbers – I'm sorry, maybe the April quarter-to-date or May? Yeah.

Gavin D. K. Hattersley

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

A

Andrea, look, we're not going to give – I think we discontinued that practice some time ago. I do think in my opening script or at some point in this conversation, I've said that April has sequentially improved, January was tough because of Omicron and then February, March and April have all sequentially improved for us.

There are different things going on in the back half of the year, right? So I mean the UK went into lockdown pretty much again in the fourth quarter of last year. So that will be an easier comp. Canada had some challenges in the fourth quarter from a prior year point of view as well. But getting into shipment detail by quarter is not something we plan to do. I think the important thing is that we've reaffirmed our guidance, and we're comfortable with that.

Andrea Teixeira

Analyst, JPMorgan Chase & Co.

Q

Thank you.

Operator: Thank you, Andrea. As we have no further questions, I would like to hand it back to Gavin for some closing remarks.

Greg Tierney

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

All right. Thank you, operator. This is Greg, it's not Gavin, but if there are any additional questions that all of you were not able to answer, please do not hesitate to pick them up with me or Traci Mangini in the days and weeks that follow. And with that, I look forward to chatting with you all soon. I hope everyone has a great day. Thank you.

Operator: Thank you, all. That does conclude today's call. Thank you again for joining, and you may now disconnect your lines.

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