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# Molson Coors Beverage Co. (TAP)

Q3 2022 Earnings Call

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### Gavin D. K. Hattersley

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### Christopher Carey

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and welcome to the Molson Coors Beverage Company Third Quarter Fiscal Year 2022 Earnings Conference Call. You can find related slides with an updated format 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 over to Greg Tierney, Vice President of FP&A and Investor Relations.

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### Greg Tierney

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

Thank you, Nadia, 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 your first question and then ask you to re-enter the queue for any follow-up questions. If you have technical questions on the quarter, please pick them up with our IR team in the days and the weeks that 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, 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.

Further, in our remarks today, we will reference underlying pre-tax income which equates to underlying income before income taxes on the condensed consolidated statements of operations.

With that, over to you, Gavin.

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### Gavin D. K. Hattersley

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

Thanks, Greg, and thank you all for joining us this morning. I am pleased to report that Molson Coors grew both the top and bottom-line on both the constant currency and an underlying basis in the third quarter.

But I'm particularly pleased because nearly three years into our revitalization plan to turn around this business, Molson Coors' top and bottom-line growth, is not just the story of a quarter, it's becoming a trend. And that is important.

For many, many years, you all knew Molson Coors as a cash-generative business that was willing to make hard cuts to meet the bottom line, but one that struggled mightily to grow the top line.

When we launched our revitalization plan, the goal was to change that trajectory and position Molson Coors for sustainable long-term top and bottom line growth, and we are making progress.

Going back to the beginning of last year, we have grown on a constant currency basis, the top and bottom line on an underlying basis in four out of seven quarters. We've logged six straight quarters of net sales revenue growth. We are growing net sales revenue in both business units. And through the third quarter of the year, our global net sales revenue is above 2019 levels on a constant currency basis. Those results are also translating into strong industry share performance in our largest global markets.

Across the US beer industry, we earned the second highest dollar share gain and the best dollar share trend improvement in the quarter relative to the last 52 weeks. Moreover, our third quarter STR trend was the best quarterly performance we have seen in over a decade.

We again gained share in the UK. We gained share in Canada year-to-date when factoring out Quebec, which was recovering from the strike earlier this year. So it's not surprising to us that three quarters of the way through 2022, we are able to reiterate the key financial metrics of our full year guidance.

Now I know that some of you are skeptical, but we have several tailwinds that give us confidence. We are benefiting from strong pricing in the US, Canada and EMEA&APAC. In the US, by far our largest market, our recent actions mean pricing will be up close to 10% on average versus the fourth quarter of last year as opposed to our historical 1% to 2% annual price increase, and we will see that pricing benefit for the entirety of the quarter.

Our UK and Canadian markets were heavily impacted by the Omicron variant in the fourth quarter of last year, which we will be comping. I know it's hard to remember but the on-premise in both markets was virtually closed for a portion of the quarter in 2021, and we do not foresee this happening again.

Additionally, as expected, we plan to have less marketing in the fourth quarter of this year, which relates to phasing as we think about how and when to most heavily market our brands. And we expect the World Cup to be a large benefit to our EMEA&APAC business. It's a major on-premise beer occasion, particularly in Europe, and it has never been this late in the year.

Tracey will get into our guidance in more details, but these are some of the factors that give us confidence to again reiterate our full year key financial guidance. And I would point out that we can do so without contemplating some hockey stick trajectory for retail sales in the fourth quarter.

Now while we don't believe that will impede our ability to deliver on our full year guidance, I do want to take a couple of minutes to discuss two challenges that impacted our third quarter results, because there are some notable trends we are beginning to see.

First and most obviously, while the rapid rise in input costs is not new this quarter, what is noticeable is the difference in COGS inflation rates between the two sides of the Atlantic. While it was high in all our markets, underlying COGS per hectoliter rose nearly 14% in EMEA&APAC compared to about 11% in the Americas.

While we have been aggressive in taking price compared to historical benchmarks in beer, and we are deploying other levers to recover as much of these costs as possible, in some markets, it's been difficult to keep up with the rampant pace of inflation. And in other markets like Central and Eastern Europe, some consumers simply cannot withstand higher levels of pricing.

And that is the second trend, which is the diverging trend among our global markets. While volumes have remained strong elsewhere, we are seeing weakened consumer demand across the beer industry in our Central and Eastern European markets. Compared to the counterparts across the continent, these consumers tend to have less disposable income, and are therefore, more prone to inflationary pressure, which has put strain on this portion of our business.

And that's in contrast to what we're seeing elsewhere. The US consumer remains resilient to date. The industry is continuing to trade up and we aren't seeing signs of significant channel shifting. September and third quarter on-premise mix of total volume has remained consistent with the year-to-date trend and above 2021 levels, and these trends are visible in the strong quarterly top line results for the Americas business unit.

Consumer trends are similar in Canada where the broader industry is seeing trade up and our portfolio is premiumizing. Volumes are even holding up in the UK. In the third quarter, on-premise volumes in this market were flat with pre-pandemic levels, despite the very volatile and uncertain economic environment there. So again, no signs of significant channel shift in the UK.

Should consumer behavior in these other markets change, we have the right portfolio to compete in a more challenging economic environment. And thanks to the revitalization plan, we also have a business that is able to adjust to conditions more nimbly. So we will continue to make the investments and decisions necessary to ensure this business delivers top and bottom line growth, not just for one quarter or for one year, but year after year after year.

That consistent approach has been the determining factor in the progress we have made. When we launched the revitalization plan nearly three years ago, we told you we're working towards a stronger core, aggressive growth in above premium and scale beyond the beer aisle, and we continue to deliver.

Our core brands have not only stabilized, they are getting stronger. In the US, our premium brands are holding industry share. And the combination of Coors Light, Miller Lite and Coors Banquet combined to grow over a full share point of the premium beer category. Miller Lite and Coors Banquet grew volume as well.

In the UK, Carling continues growing share of the familiar trusted lager segment and again widened its lead as the country's number one beer. In Canada, Molson Canadian continues to grow net sales revenue and share of segment, while Miller Lite brand volumes are growing double digits with the brand achieving industry share growth. And in Central and Eastern Europe, we are growing segment share with our national power brands in the majority of markets.

Our global portfolio continues to premiumize rapidly. In the UK, Madri remains on an incredible rise. It is already our number three brand in that market and has gained the most market share of any of our global brand innovations since the Molson Coors merger in 2005. Topo Chico Hard Seltzer remains the fastest-growing hard seltzer in the US and was a top five industry growth brand in the quarter.

Simply Spiked Lemonade is the fastest-growing new FAB in the US and was also a top industry growth brand finishing in the top 10. The Blue Moon family grew share of the craft segment in the US, while Peroni volumes were up double digits.

In Canada, our hard seltzers grew double digits and continued to gain share of the seltzer category with Vizzy and Coors Seltzer now the number four and number six seltzer brands, respectively. We're also meaningfully

expanding beyond the beer aisle. And our beyond beer space is about to get bigger, as we recently announced our emerging growth team plans to launch Topo Chico Spirited, an RTD cocktail early next year.

The continued strength of our brands helped our business deliver on the top line globally. And while COGS inflation globally and consumer weakness in Central and Eastern Europe hampered our bottom line results in the third quarter, today we remain on track to grow our top line and bottom line this year for the first time in over a decade.

We have made substantial progress across this business in under three years. We've done it in spite of serious challenges no one saw coming, and we remain focused on setting up Molson Coors for long-term sustainable top and bottom line growth.

Now, to give you more details on the financials and outlook, I'll hand it over to our Chief Financial Officer, Tracey Joubert. Tracey?

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## Tracey I. Joubert

*Chief Financial Officer, Molson Coors Beverage Co.*

Thank you, Gavin, and hello, everyone. For the third quarter, we delivered another quarter of net sales revenue and underlying pre-tax growth. We continue to invest in our business. We reduced net debt, and we returned cash to shareholders. Despite the challenging global macro environment and overall industry softness, beer consumers remained resilient in our three major markets in the third quarter, while we saw softness in our Central and Eastern European business. And as expected, global inflationary pressures continue to be a headwind for our bottom line performance.

Taking this all into account, we are maintaining our 2022 key financial guidance, but we do now expect underlying pre-tax income growth on a constant currency basis to be at the lower end of our high single-digit range. While we discuss our business performance on a constant currency basis, it is also relevant to consider the currency impact of the strong US dollar, which was a meaningful headwind to the reported results in the quarter.

On a reported basis, our third quarter net sales revenue was negatively impacted by \$109 million, and our underlying pre-tax income was negatively impacted by \$21 million. Before we discuss our quarterly performance, I wanted to provide some context on our on-premise recovery. Our third quarter on-premise has nearly fully recovered to 2019 total revenue levels. However, in looking at the map on slide 8, we can see there are variations by market.

In the US, the on-premise reached 94% of 2019 total revenues, the highest since the pandemic. While in Canada, where on-premise restrictions has been more severe, the on-premise continued to improve on a sequential basis, but has not returned to 2019 levels. However, in the UK, similar to the second quarter, the on-premise well-exceeded 2019 total revenues.

Now, I'll take you through our quarterly performance and our outlook. Turning to slide 9. Consolidated net sales revenue grew 7.9%, driven by strong global net pricing and favorable sales mix. Consolidated financial volumes were essentially flat. America's shipments were down due to the continued impact of the Quebec labor strike, which was resolved in June, while financial volumes were higher in EMEA&APAC on increased UK brand volumes.

Net sales per hectoliter on a brand volume basis increased 9.2%, driven by strong global net pricing and positive sales mix across both business units. As expected, inflationary pressures continued to be a headwind in the

quarter. As you can see on slide 10, underlying COGS per hectoliter increased 12%. The two biggest drivers were cost inflation and mix. Cost inflation comprised more than two-thirds of the increase and included higher input materials, transportation and energy costs.

Our mix drove roughly 350 basis points of the increase and was due to premiumization, which is a negative in terms of COGS, but a positive in terms of gross margin. While inflation remains a significant headwind, we continue to judiciously deploy our multiple levers, including pricing, premiumization and our hedging and cost savings program to help mitigate the impact.

As it pertains to our hedging program, it is worth reminding that our program is longer term in nature as we hedge commodities over one to three years, and we operate within guardrails and take a more opportunistic rather than programmatic approach. The purpose of the hedging program is to smooth out the impact of big swings in commodity prices. So in a situation like the third quarter, where we saw some sequential easing of certain commodities, it will take time to see the impact on the P&L.

Further, we are exposed to other costs that cannot be hedged such as freight, but also material conversion costs and third-party manufacture contracts that extend over periods of time, which can be material contributors to our COGS. MG&A increased 3.5%, as lower marketing spend was more than offset by higher G&A. Marketing investment decreased as we cycled higher spend in the prior year period when investments exceeded third quarter 2019 levels. We continue to provide strong commercial support behind our core brands and new innovations like the US launch of Simply Spiked.

G&A increased due to increased people-related costs, including travel and entertainment expenses, and legal costs, as well as cycling The Yuengling Company equity income, which was included in G&A in the prior year period. Now let's take a look at our results by business unit. Turning to slide 11, the Americas net sales revenue increased 7.4%, benefiting from net pricing growth and positive brand mix, partially offset by lower financial volumes.

Americas' financial volumes decreased 1% driven by Canada, while US domestic shipments increased 1.4%. Americas' brand volumes decreased 1.5%, driven by Quebec; and US brand volume declines of 0.9%, which approximated industry performance. US brand volume trends were driven by high single-digit declines in the economy brands largely due to the SKU rationalization program; and to a lesser degree, by low single-digit declines in premium brands. Conversely, the US above premium portfolio continued to grow strongly, up low double digits for the quarter.

Brand volumes in Latin America also increased. Net sales per hectoliter on a brand volume basis increased 7.5% due to net pricing growth and favorable brand mix. And as you can see in the slide, strong pricing and premiumization in our two largest markets in the Americas, the US and Canada, drove that performance.

On the cost side, Americas underlying COGS per hectoliter increased 11.4%. As with our consolidated results, the primary drivers were inflation, including higher materials, energy and transportation costs, as well as mix impacts from premiumization. MG&A decreased 1.4%, driven by lower marketing spend.

As I mentioned, we strongly supported the national launch of Simply Spiked, but overall marketing spend declined due to lower US national marketing and sales control spend related to alliance and media phasing. G&A increased as a result of the same drivers discussed for the consolidated G&A I mentioned earlier. As a result, Americas underlying pre-tax income increased 10.5%.

Turning to EMEA&APAC on slide 12. Net sales revenue increased 9.6%, driven by higher financial volumes, net pricing growth and favorable mix. Financial volumes grew 2% due to higher brand volumes in Western Europe, where the demand remains strong, along with higher factored brand volumes. This was partially offset by brand volume declines due to Russia's war in Ukraine and weakened demand due to inflationary pressures in Central and Eastern Europe.

EMEA&APAC net sales per hectoliter on a brand volume basis was up 14.3%, driven by positive net pricing, as well as favorable sales mix, driven by the strength in our above premium brands like Madri and positive geographic mix.

On the cost side, underlying COGS per hectoliter increased 13.8%. Similar to the Americas, the drivers were cost inflation and mix from premiumization. MG&A increased 21.7% as we accelerated marketing investments behind our national champion and above premium brands, especially in the UK, supporting Carling, Madri and Staropramen and fueling on-premise strength. G&A also increased as we cycled lower relative spending in the prior year. As a result of these higher costs, EMEA&APAC, underlying pre-tax income declined 38.9%.

Turning to slide 13. Our underlying free cash flow was \$597 million for the first nine months of the year, a decrease of \$336 million from the same period last year. This was primarily due to higher capital expenditures and lower underlying pre-tax income, partially offset by the prior year net repayment of various tax payment deferral programs related to the pandemic and lower cash taxes.

Our capital allocation priorities remain to invest in our business to drive top line growth and efficiencies, reduce net debt and to return cash to shareholders.

Capital expenditures paid were \$531 million for the first nine months of the year, an increase of \$167 million from the prior year period, and we're focused on expanding our production capacity and capabilities program, which support improved efficiencies and help us deliver our sustainability goals.

Capital expenditure levels remain in line with our expectations of approximating pre-pandemic annual levels. We ended the quarter with net debt of \$6.1 billion, down nearly \$500 million since December 31, 2021, and a trailing 12-month net debt to underlying EBITDA ratio of 3.13 times, approaching our target of below 3 times by the end of 2022.

We ended the quarter with \$125 million of commercial paper outstanding. In this rising interest rate environment, it's notable that substantially all our debt is at fixed rate. In terms of returning cash to shareholders during the third quarter, we paid a quarterly cash dividend of \$0.38 per share to holders of Class A and B common stockholders. And we paid approximately \$12.6 million for 230,000 shares under our share repurchase program, which is essentially an anti-dilution program for annual employee equity grant.

Now let's discuss our outlook, which you can see on slide 14. And while we start year-over-year growth rates in constant currency, please note that current exchange rates will generate a headwind in our fourth quarter reported results at similar relative levels to what we experienced in the third quarter due to the strength of the US dollar.

For 2022, we are reaffirming our guidance of mid single-digit net sales revenue growth, high single-digit underlying pre-tax income growth and underlying free cash flow of \$1 billion, plus or minus 10%. However, given increased inflationary cost pressures and weakening demand in Central and Eastern Europe, we expect underlying pre-tax income growth to be at the lower end of the range.

Based on our annual guidance, this would imply for the fourth quarter on a constant currency basis, underlying pre-tax income growth in the range of approximately 45% to 60%, and we expect to be at the lower end of the range.

Now let me walk through some of the assumptions that will help you understand why we have reaffirmed our guidance. Gavin has already discussed some of the top-line drivers like our forecasting in the US, easing comparisons in the UK and Canada and the World Cup tournament. Also, in the fourth quarter we have fully lapped the shipment headwind from our economy SKU rationalization. These drivers are partially offset by weakened demand in Central and Eastern Europe.

From a COGS point of view, we continue to expect margins to be impacted by inflationary pressures, particularly with acceleration in commodity costs in EMEA&APAC. But offsetting some of the inflation costs, we continue to expect our cost savings program to be weighted to the fourth quarter. And we now expect lower depreciation, which is due to the timing of capital projects and the impact of significant foreign exchange movements.

Turning to marketing. We continue to expect overall spend to be down in the fourth quarter compared to the prior year period. We are comfortable with our planned level of marketing investment, which is comparing against the prior year period when marketing investment exceeded 2019 levels.

Looking out to 2023, while we are not prepared to provide any guidance, we remain committed to putting the right commercial pressure behind our core brands and key innovations, including our first official Super Bowl ad in more than 30 years.

In terms of our other guidance metrics, we continue to expect net interest expense of \$265 million, plus or minus 5%. However, we are lowering our underlying effective tax rate to a range of 21% to 22% from our prior guidance range of 22% to 24%. And we are lowering our underlying depreciation and amortization to \$700 million plus or minus 5% from our previous guidance of \$750 million, plus or minus 5% for the reasons I just mentioned.

So in closing, we put up another quarter of growth and did so in a challenging macro environment. While these remain dynamic and uncertain times under our revitalization plan, we have built our business to manage through challenges. With strong brands across all our segments and greatly enhanced financial and operational flexibility, we remain confident in our ability to navigate near-term macro challenges while investing in the business and staying the course towards our goal of long-term sustainable top and bottom line growth.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question today goes to Kevin Grundy of Jefferies. Kevin, please go ahead. Your line is open.

**Kevin Grundy**

*Analyst, Jefferies LLC*

Q

Great. Thanks. Good morning everyone. Two questions, if I could, Gavin. The first long-term oriented, the second, more near-term. The first, just regarding your outlook for the US beer industry, Jim Koch recently drew some attention with his comments at Boston Beer's wholesaler meeting that traditional beer may never grow again in our lifetimes in the US. ABI's leadership was recently asked to react to Jim's comments on their earnings call. So I'd like to get your reaction to Jim's comments as well.

And then the second, more near-term oriented, just what adjustments are you making here, if any, to the playbook over the next 12 months given the more challenging inflationary backdrop and weaker consumer environment, particularly in your European business? So thanks for that.

**Gavin D. K. Hattersley**

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

A

Thanks, Kevin, and good morning. Yes. Look, to your first question, I mean, I personally thought that was quite a self-serving statement from Jim. And I guess what you would expect to hear from the leader of a business who's only got about 10% of their portfolio in beer. I also thought it was that they would make on the same call a comment that truly was losing share to Premium Lights, which is obviously beer.

So, look, I mean, beer's been around for 1,000 years, Kevin. It's the most popular alcohol beverage in the world. In fact, outside of water and tea, beer is the third most popular beverage of any kind in the whole world. So I don't think it's going anywhere. And our results over the past few years would suggest as much.

If you go back a few years, people were speculating that light beer was dead because of seltzers and I can show you the headlines of all those comments. And I don't think you hear a lot about that anymore today. In fact, you hear quite the opposite.

So it's – from our perspective, Coors Light, Miller Lite are growing NSR. Miller Lite just grew volume in Q3. So are we going to find a way to leverage our competitive strengths and take advantage of growth opportunities beyond beer? Absolutely, we are. But make no mistake, Kevin. Beer is always going to be the heartbeat of our business, and beer, I think, is always going to be a favorite of consumers as the moderate choice of alcohol compared with hard liquor. So yes, that's my comments on Jim's comments.

As far as the adjustments we're making to our business, look, our revitalization plan we launched three years ago focused in on our core brands, growing our above premium brands and building capabilities in our business and driving beyond beer. And I think we've made tremendous progress against those. I think during that time, we have shown that we are nimble and we can make adjustments when we need to make them.

I'd point to the most high profile adjustment we made was back when the pandemic hit and our marketing department almost overnight changed their campaigns of both Miller Lite and Coors Light and shifted our media into the digital space where the consumer was and no longer necessarily on the traditional side.

And make no mistake, we'll make adjustments where we think we need to make them in Europe. It's interesting, though, that there's a bifurcation in Europe. Western Europe is just continuing as they were. Consumer demand is holding up strongly. We've also put in strong price increases in Western Europe, particularly the UK. And so far, we're not seeing any negative price elasticity because of that.

The challenge we've had has come in Central and Eastern Europe, where the consumer's got less headwind or head space from a disposable income point of view, and energy costs, certainly and inflation are impacting those markets in a more meaningful way. Notwithstanding that, as you saw, we grew our marketing spend in EMEA&APAC in the third quarter, putting money behind our new innovation of Madri and some of our brands in local markets in EMEA&APAC. So I think we'll continue to make the right decisions behind our brands that we need to keep the momentum that we've got right now, Kevin.

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**Kevin Grundy**

*Analyst, Jefferies LLC*

Okay very good. Thanks, Gavin. Good luck.

Q

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**Gavin D. K. Hattersley**

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

Thanks.

A

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**Operator:** Thank you. And our next question goes to Rob Ottenstein of Evercore. Rob, please go ahead. Your line is open.

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**Robert Ottenstein**

*Analyst, Evercore ISI*

Great. Thank you very much. So Gavin, I know you don't talk about kind of the upcoming quarter, but it's kind of out there that in the US, October was really, really weak. We're hearing from some distributors down double digit. Wondering if you can make any comments on that at all?

Q

And then just kind of give us some sort of sense about how you're looking at pricing in the US and in Europe and why the kind of levels that you're looking to get, which are historically high and clearly justified by the commodity increases, but whether those are levels that the consumer is going to be able to absorb, particularly with some tightening in the economy? Thank you.

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**Gavin D. K. Hattersley**

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

Thanks, Rob. Look, I mean, if you look at pricing, we obviously took a fairly meaningful price increase in the spring of this year. It was higher than our normal average. So 3% to 5% in the spring. And then we put a pretty similar price increase through in the fall. So it's a little soon to determine the impact of the second price increase, which we put into the marketplace.

A

I mean, in some instances, we're actually still putting price in. Some of it went to back end of September, some in October, and we've got some going in November. So there isn't a data to show what that price increases has done to the consumer or will do. The price increase that we took in the spring, the price elasticities were not as elastic as they have been historically. I think the consumer has been quite resilient to the price increases we've

put into the market, given that they're actually quite substantially lower than many other fast-moving goods that consumers have been exposed to.

So same effect that we've had in Canada and the same effect that we've had in UK. Because it's only really EMEA&APAC, Central, Eastern Europe business, where I think the sort of head space and disposable income hasn't proven to be as strong as the rest of our businesses. As far as October is con – sorry, Robert?

**Robert Ottenstein**

*Analyst, Evercore ISI*

Q

I was just going to ask – I was just – sorry, I was just going to – I didn't mean to interrupt you. I'm sorry. Is the price increase range is the same in the UK and Europe? Or is it a little bit less?

**Gavin D. K. Hattersley**

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

A

We've actually taken different price increases by market, Robert. So in some Central, Eastern European markets, we've taken double digits, in the United Kingdom, not as much as that. The United Kingdom price increases are closer to what we've done in the US, again, by brand, by pack, by country. If you then look at the first...

[indiscernible] (00:33:13-00:33:20)

**Robert Ottenstein**

*Analyst, Evercore ISI*

Q

Has it been two price increases, sorry, in Europe, so a spring one and a fall one also?

**Gavin D. K. Hattersley**

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

A

We don't follow the same pricing calendar in the United Kingdom as we do in the US. If my memory serves me, we have taken more than one price increase though, but it's not the same timing as the US. Now you're up to four questions, Robert. So I'm going to answer your question quickly and then move on to someone else. But from an October point of view, look, it's too soon to tell what the impact is, right? Because there was load-in from some of our price increases in late September; and surely, that is impacted in the first couple of weeks of October, just as every price increase has a load-in.

In many of our markets, that sell-through has now taken place, and we've reverted back to trends that existed before. But in other markets, the sell-through is still taking place. So I think we'll get a good assessment of it, obviously, in the next few weeks. Just remember also that in October of last year, that was really where we recovered our inventory levels following the cybersecurity attack.

If you remember, we spent the whole of the second and third quarters playing catch up and just keeping our head above water from a shipments point of view. And we really did recover shipments in the fourth quarter of last year. We exited the third quarter this year with our inventories in a really good place. And so, that will be sort of negative headwind, so to speak, for the fourth quarter as we do plan to ship to full year consumption. Thanks, Robert.

**Robert Ottenstein**

*Analyst, Evercore ISI*

Q

Thank you.

**Operator:** Thank you. And the next question goes to Chris Carey of Wells Fargo Securities. Chris, please go ahead. Your line is open.

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**Christopher Carey**

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. Gavin, can I just confirm what you just said and then I'll switch to my question. But did you just say that inventories are now clean and so that could be a bit of a headwind and you will shift to consumption in Q4. And I'd just like to confirm whether some of the recent headwinds associated with the Quebec strike and economy SKU reductions and some of these other things that have been lingering through the year, are now in the rearview. So just wanted to confirm that, then I'll ask the question here.

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**Gavin D. K. Hattersley**

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

A

Yes, Chris, so my comment related to the US. So the US inventory, I would say, with a few minor exceptions with some SKUs is where we wanted to be. We had got a really good place at the end of the third quarter. And if you remember last year, in the US we were still rebuilding our inventories following the cybersecurity attack all the way through the fourth quarter. So yes, the headwind from a shipments point of view in the US.

In Quebec, we are still recovering from that, right? It just does take time for us to get our inventories back to the level that we want to have them at. We had a 12-week strike essentially, and it's taking time to get back to where we need it to be. So, that would still be a relative tailwind in the fourth quarter from a Quebec point of view.

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**Christopher Carey**

*Analyst, Wells Fargo Securities LLC*

Q

Okay. Okay. Thanks. And then Gavin, can you just give us an update on how you see this portfolio shaping up over the next year from a mix percentage. Obviously, you put out some targets for the percentage of emerging growth, the percentage of the portfolio that will be premium.

I wonder if you can talk to the craft business effectively. There are some strategies to evolve this portfolio over time. And you know that time line over the next year is kind of how you guys have described that. I wonder if you can just give us an update on, on how you see things today and how these things are evolving.

And then just Tracey, if I could squeeze in just – did you say that non-commodity inflation should continue to pick up as your commodity inflation eases? So that's just, again, I just wanted to confirm that from Tracey, but really Gavin the complexion of the portfolio over the next year would be helpful.

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**Gavin D. K. Hattersley**

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

A

Yeah. Thanks, Chris. Look, I'll take them by each of our revitalization plan strategies, right? So our core brands, strengthening our core brands, we're seeing that globally. If you just look at the United States, Coors Light, Miller Lite continuing their share trend improvement, Miller Lite holding share for the second consecutive quarter.

Coors Light, Miller Lite gaining more than 100 points of premium light space, and they're both growing dollar sales. Coors Light was up mid-single-digits in NSR, Miller Lite was up double digits. So we're obviously going to continue to push both of those brands in the US. They're in really good shape from a brand health point of view and reacting really well to the differentiated marketing components that we've got behind them.

You're seeing the same impact in Canada. We've got Coors Light that's strengthening, Miller Lite that's growing double digits and Molson Canadian even starting to show performance trend improvements. And in the UK, Carling is doing well. Ožusko is doing well in Croatia. So we feel that our core brand portfolio is in good shape, reacting really well to our marketing and our marketing investments, and we're going to continue to push that.

So from an above premium point of view, I don't believe we've had a target we specifically put out there from a share of our portfolio point of view, but we had another record share of our portfolio for above premium. And then obviously, we want to continue to drive that. We've had some extremely successful innovations in both our North America business unit with Simply Spiked and with Topo Chico. And also in our EMEA&APAC business unit, where Madri is shaping up to be the best innovation that that market has ever launched, continuing to grow share at a rapid pace.

On top of that, Blue Moon, Blue Moon LightSky; I mean Blue Moon is the number one craft brand, Blue Moon LightSky is the number one light craft brand. Peroni is growing very strongly in the double digits. And so, we would expect our above premium portfolio to continue to grow from strength to strength. And then from an economy point of view, not really a player in our EMEA&APAC business unit, more relevant in the US and there – I think it's safe to say that we are now through the SKU rationalization process in the fourth quarter.

Certainly, there were no more shipment comparisons that we're going up against. And I'm sure there were a few laggards from a sales to retail point of view. But by and large, we are through that. And our focus on our four core economy brands is proving beneficial, right, both from a marketing point of view, a sales point of view and a distributor point of view.

So, as I said in our prepared remarks, Chris, I think our brands and our portfolio is really well positioned to take advantage of whatever happens. I mean right now, we're not seeing trade down in our US market, albeit premiumization has slowed down, but we're not seeing trade down. If it happens, we've got the ideal portfolio for that. We've always said that that all segments matter, and we've got brands that are now strong and ready to take advantage of it. Tracey, yes...

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**Tracey I. Joubert**

*Chief Financial Officer, Molson Coors Beverage Co.*

**A**

Yes. So Chris, from what I'd just say from a COGS point of view is we expect to have our margins continue to be impacted by inflationary pressures, particularly in EMEA&APAC. And then also, we are exposed to other costs that can't be hedged. So again, we're comfortable with our hedge coverage level for the balance of 2022 and into 2023. But there are costs that can be material contributors to our COGS, such as freight that we can't hedge, material conversion costs I mentioned. And then our third-party co-manufacturing costs, which also cannot be hedged. So that's from the COGS side.

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**Gavin D. K. Hattersley**

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

**A**

Thanks, Chris.

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**Christopher Carey**

*Analyst, Wells Fargo Securities LLC*

**Q**

Much appreciated. Thank you.

**Operator:** Thank you. And the next question goes to Vivien Azer of Cowen. Vivien, please go ahead. Your line is open.

**Vivien Azer**

*Analyst, Cowen & Co. LLC*



Thank you. Good morning, Gavin and Tracey, I apologize, I dropped off the call momentarily, so I hope this hasn't been repeated. But I did want to follow-up on Robert's question around October. So, it seems like with the beer purchasers' index being remarkably low in the quarter that might be a function of the fact that you overshipped to your inventory squared away. But just to follow-up on that theme. I'm just curious in your discussions with wholesalers and distributors, whether there's been any shift in in your alignment around perspectives on price elasticity given the price increase? Thank you.

**Gavin D. K. Hattersley**

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



Thanks, Vivien. Yes, from a price increase point of view, as I said, we don't have any data at this point in time to suggest anything around our price increase that we took in the fall. We do, on the price increase we took in the spring, which was pretty much double what we normally have taken in a year for a fairly long period of time, probably the last decade and the price elasticities were less than what we would have historically expected.

So the price increase that we put in the market was seemed to have been well received by consumers. Certainly, the retailers understand the cost pressures that we're facing. And we're supportive.

So I would say, too soon to have any perspective on the recent price increase. As I said, we're still actually putting some price increases into the market in some states. And in some states, we put it in early October, some in mid-October. And there's always a load-in that takes place, and there's always a bit of a payback after that.

When you couple that with the fact that we were still building inventories heavily in Q4 of last year, and we don't have to do that this year because our inventories are in a really good shape. Our stocks are as low as they've been for quite some time with only some very, very few SKUs where we have issues. I think we're in good shape from that perspective. But again, I'm reiterating that, that is a headwind in our US market in the fourth quarter. Thanks, Vivien.

**Vivien Azer**

*Analyst, Cowen & Co. LLC*



Certainly, thank you.

**Operator:** Thank you. And the next question goes to Steve Powers of Deutsche Bank. Steve, please go ahead. Your line is open.

**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*



All right. Thanks so much. I wanted to clarify on the pricing. You called out the near 10% in the fourth quarter. I just was wondering if we have a comparable number for where you were in the third quarter and if that your 10% it contemplates mix or if it's strictly rate. So a clarification there would be great.

And then I also wanted to ask on the lower D&A. And in two respects, one is, you've been running just north of \$170 million kind of run rate all year. I'm assuming, I guess, a base case that that's a good place to start in the fourth quarter, but I wanted to understand if there's any reason why that would deviate.

And then you mentioned FX as a partial driver of that, which makes sense, but also the timing of certain capital projects. And I'm just – maybe you can talk a little bit about what types of capital projects may have been deferred, and if we should think about those as fiscal 2023 initiatives if they're longer term. Just a little bit more context on what – on the drivers behind that lower D&A and how it impacts the future. Thank you.

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**Gavin D. K. Hattersley**

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

A

Thanks, Steve. Tracey, if you can take two and three, I'll take one. From a comparable point of view in the third quarter, Steve, I'd say around 5% was in the third quarter.

So, that lines up well with the sort of 3% to 5% that we put in, in back end of September and then into October. So that's a North American number. The US number is not terribly dissimilar from that. So call it 5% is the comparable number.

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**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay.

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**Gavin D. K. Hattersley**

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

A

Tracey?

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**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Q

That helps. Thank you.

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**Gavin D. K. Hattersley**

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

A

Yeah.

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**Tracey I. Joubert**

*Chief Financial Officer, Molson Coors Beverage Co.*

A

Yeah so...

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**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Tracey?

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**Tracey I. Joubert**

*Chief Financial Officer, Molson Coors Beverage Co.*

A

Steve?

**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Please go ahead. Sorry, I don't want to talk over you.

Q

**Tracey I. Joubert**

*Chief Financial Officer, Molson Coors Beverage Co.*

Okay. Yeah. On the D&A, that run rate is reasonable, again, depending on ForEx. There's nothing that we have pulled back on. It's really a lot is about timing. And as I said, we expect our CapEx spend to sort of equate to the sort of pre-pandemic levels and nothing has changed from that.

A

**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Okay. Thank you very much.

Q

**Operator:** Thank you. And the next question goes to Andrea Teixeira of JPMorgan. Andrea, please go ahead. Your line is open.

**Andrea Teixeira**

*Analyst, JPMorgan Securities LLC*

Thank you. Good morning. So my question is more on the bridge, Tracey, you helped us just now with the pricing, the bridge for gross margin and into what is implied. If our math is correct, I think it's implying that profit before tax would be up like more than 40%.

Q

So I was wondering if you can comment on how you were able to understand the mix impact of the economy going away, the lap and the pricing you just discussed, but if you think about the COGS and how the hedges will roll over into 2023. So if you can help us reconcile. And if under the 48-ish percent implied upside for that you embed in your guide, is that also related mostly for the marketing spend that you mentioned that is down? Or even in the gross margin line, you see an expansion in the fourth quarter? Thank you.

**Gavin D. K. Hattersley**

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

Thanks, Andrea. Look, I'll take that one. Let me just go back again to the drivers of why we're confident on our guidance for the fourth quarter and obviously, the full year. And just to be clear, yes, your math is correct, right? It does imply income before income tax growth of around 40% to 60%, and we – as we said on the call, Tracey said on the call, we expect to be at the lower end of that.

A

If you look at the top-line, a number of positive tailwinds for us in the fourth quarter. We've got the strong pricing in the US, Canada and the United Kingdom. As I said in Q4, when you combine that with the pricing that we put in earlier in the year, we're looking at around a 10% price increase per hectoliter in Q4. We're comping Omicron in the prior year of Q4, which, if you remember, had a really big impact in the UK and Canada. We lost the Christmas holidays in Canada – sorry, in the UK, that's a big selling occasion for the UK market. We're not expecting that.

And frankly, because of all the impacts that we had last year, we only made \$5 million in the EMEA&APAC business unit last year. So it doesn't take much of a move to produce meaningful profit increase percentages in our EMEA&APAC business. We're also looking at the World Cup, as I said, in November. It's a really big beer

drinking occasion, particularly in the UK and it's never been this late before. And as you rightly point out, in Q4, we fully lap the economy SKU rationalization.

Partially offsetting this, as I said, is the weakened demand that we're seeing in Central and Eastern Europe and the shipment comp that we've got coming through in the US business in the fourth quarter of last year. And then a positive tailwind again is our Quebec business as we rebuild our inventory levels in Quebec, Canada.

From a COGS point of view, that's a headwind for us. There's no question about that. It's a headwind for everybody, and we're not immune from that. Tracey has talked about that.

We do expect savings under our cost savings program to come through in the fourth quarter. If I remember correctly, it was actually weighted towards the fourth quarter of this year. Trace has talked about the lower depreciation. And yes, we are expecting marketing to be down year-over-year.

We've said that from the beginning of the year, right, that we were phasing our marketing into the first half of the year and less so in the second half of the year. So that is also a positive. And then we've got a positive mix coming through, right? And we've got a nice positive mix coming through from our above premiumization strategy across the world, not just in the United States. So that's what gives us confidence to keep our guidance at the levels that we have.

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**Andrea Teixeira**

*Analyst, JPMorgan Securities LLC*

**Q**

That's very helpful. And then on the hedging, as we think about next year, like I understand that obviously, the hedges and just to make sure that it's just the lapping of the hedges or it's also obviously the carryover from a couple of other costs, because I understand, obviously, cans are being slightly cheaper now and more available. Just to think how we should think about also the transportation COGS and all of that embedded in your guide.

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**Gavin D. K. Hattersley**

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

**A**

Trace can talk about the hedging. I'll talk about it from a high level, right? So we're not going to give guidance on this call. We always give it on the fourth quarter call, which is February once all our internal plans are signed off and signed off by our board. But step back to the revitalization plan, Andrea. The objective of that plan was to drive both top line and bottom line growth on a consistent basis.

We grew top line in 2021. Our guidance is out there that we're going to grow top and bottom line in 2022. And it's not meant to be a one-off thing. It's meant to be a consistent driver of top line and bottom line growth for our business is the very essence of our revitalization plan. But from a hedging point of view, can you give any more color without giving guidance?

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**Tracey I. Joubert**

*Chief Financial Officer, Molson Coors Beverage Co.*

**A**

Yeah. And I think – thanks, Gavin. So I think one of the important things around our hedging program is it really is there to help us smooth some of the volatility as we see in the commodity price fluctuations. So, we've said that we're comfortable with the coverage level for the balance of the year and in 2023. And that the way that we hedge is it's not programmatic.

So it does allow us to be opportunistic. And then typically, we have the highest hedges in year one and then less in year two and less in year three. So again, it's a tight program. We operate within guardrails, but it's really to smooth the commodity price fluctuations.

**Gavin D. K. Hattersley**

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

A

Thanks, Trace. Thanks, Andrea.

**Andrea Teixeira**

*Analyst, JPMorgan Securities LLC*

Q

Thank you, both.

**Operator:** Thank you. And the next question goes to Eric Serotta of Morgan Stanley. Eric, please go ahead. Your line is open.

**Eric Adam Serotta**

*Analyst, Morgan Stanley*

Q

Great. Thanks for taking the question. Wondering if you have any color in terms of the phasing of – or the cadence of your trends in Western Europe. Summer was obviously quite strong, particularly in the UK, but any signs of weakness coming out of the quarter or entering the fourth quarter, particularly in light of what one of your competitors said recently.

**Gavin D. K. Hattersley**

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

A

Thanks, Eric. Look, I mean, as I said, if you look at the UK, market demand has been resilient. The consumer is holding up, and we haven't seen any change in that post the end of the quarter. Certainly, we have started to see a tightening in the Central and Eastern Europe market.

As I said, the hedge space from a disposable income point of view is a lot tighter in Central and Eastern Europe, and the impact of energy and inflation has been a lot stronger in our Central and Eastern European market. So, we certainly have seen a softening in demand from our Central European business, but in the UK the consumer has remained resilient.

**Eric Adam Serotta**

*Analyst, Morgan Stanley*

Q

Great. Thanks. Rest of my questions have been answered, so I'll pass it on.

**Gavin D. K. Hattersley**

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

A

Thanks, Eric.

**Tracey I. Joubert**

*Chief Financial Officer, Molson Coors Beverage Co.*

A

Thanks, Eric.

**Operator:** Thank you. And the next question goes to Nadine Sarwat of Bernstein. Nadine, please go ahead. Your line is open.

**Nadine Sarwat**

*Analyst, Bernstein Autonomous LLP*

Q

Hi. Thank you. Two quick questions for me, please. So first, could you just walk us exactly through what changed between the last results and today such that you're guiding the earnings growth guidance to the bottom end? So, just working through what has happened that was unexpected versus what you thought last quarter.

And then secondly, can you give us any indication of how you plan to approach pricing next year, especially given that input cost headwinds will still be there given the hedging programs Tracey flagged? Thank you.

**Gavin D. K. Hattersley**

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

A

Thanks, Nadine. Good morning. Look, I would say two things, right? What changed to drive us to the lower end would be consumer demand in our Central and Eastern European businesses plus some slightly higher cost of goods sold in those markets for unhedged areas. And that would apply probably across the board, but more meaningfully in our Central and Eastern European business.

As far as pricing is concerned, look, Nadine, I think it's a little too soon to tell, right? We've just put in historic price increases in 2022 of almost 10%, as I said, and we need to let that play out a little bit, right? We don't have any data for our latest price increase showing what, if any, impact it's had on the consumer from a price elasticity point of view.

And so, we've got several months to make that decision on how much or, if at all, we need to put a price increase into the marketplace. Certainly, the benefits of the 10% we've just put in this year will flow through into next year from a positive point of view, not only in the US but also the price increases we put in Canada, UK and Central and Eastern Europe.

**Nadine Sarwat**

*Analyst, Bernstein Autonomous LLP*

Q

Got it. Thank you.

**Gavin D. K. Hattersley**

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

A

Thanks, Nadine.

**Operator:** Thank you. And the next question goes to Kaumil Gajrawala of Credit Suisse. Kaumil, please go ahead. Your line is open.

**Kaumil Gajrawala**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi, good morning or good afternoon I suppose by now. Can you maybe just – I want to square some of your answer to Nadine's question on the pressure in Eastern Europe and what's driven guidance to the lower end of the range. Shouldn't that be more than offset by the \$50 million change in your depreciation expectations?

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

A

Remember, our guidance, Kaumil, is in constant currency, right? So, we eliminate the impact of foreign exchange flow-throughs in our guidance. So it's a constant currency basis.

**Kaumil Gajrawala***Analyst, Credit Suisse Securities (USA) LLC*

Q

Yes. But the question on depreciation, if your depreciation ends up being \$50 million less than you thought, I'm just thinking about the amount of cushion that gives you given the magnitude of that change. It just feels like it should have been able to offset quite a change on the areas where you were negatively impacted. Is that not the case?

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

A

Yes. So just remember, the \$50 million reduction is for the full year. So it has been running lower for the first nine months of the year. So, don't expect like it's a full \$50 million in Q4.

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

A

Remember, our guidance was \$750 million plus or minus, right? So we have been running at the lower end of that for the nine months, Kaumil. So yes, there's not a \$50 million benefit in the fourth quarter. That is for sure.

**Kaumil Gajrawala***Analyst, Credit Suisse Securities (USA) LLC*

Q

All right. Got it. That clarifies that. Thank you. And then just quickly on the World Cup and marketing, maybe it's just timing, but I might have expected that marketing would be higher during a World Cup period. And I think in the past or before years, there's this little sort of bump in marketing. Just curious why it's intended to be lower at this time.

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

A

Look, I mean our approach to marketing, Kaumil, is constantly to optimize our media spend to reach drinkers with the right brands, at the right moments, with the right level of investments. And we are agile, and we do pivot to drive the best possible return that we can get in the marketplace. Obviously, the World Cup is less of a thing, so to speak, in our North American business. But having said that, it's a big deal with our Latino consumer, and that's why we're going to have a very significant presence in the World Cup with the Topo Chico Hard Seltzer.

We're going to be advertising on 50 games on Spanish language TV, and we're actually really excited about that opportunity given that Topo Chico has got less than half of the awareness of White Claw, but over indexes with Latino consumers who are under indexed in the seltzer space. So this is a perfect opportunity for us to bring Topo Chico to life through the World Cup and we'll be on the big games, Mexico, US and so on that really resonate with our Latino consumers.

In the UK and in some of the other markets where soccer is a big deal, we will certainly be putting more money behind our brands. Carling is a fine example. Carling will play very well during the World Cup, given its market share in the on-premise and how World Cup soccer has traditionally driven people into the on-premise outlets. So

we will be supporting our brands, particularly where soccer makes a big difference which is in our EMEA&APAC business.

**Kaamil Gajrawala**

*Analyst, Credit Suisse Securities (USA) LLC*

Got it. Thank you.

Q

**Gavin D. K. Hattersley**

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

Thanks, Kaamil.

A

**Operator:** Thank you. And the next question goes to Gerald Pascarelli of Wedbush Securities. Gerald, please go ahead. Your line is open.

**Gerald Pascarelli**

*Analyst, Wedbush Securities, Inc.*

Hi. Thank you very much for the question. In flavored malt beverages, you've been a consistent market share gainer over the course of the year, largely on the strength in Topo Chico and Simply Spiked, both of which are benefiting from incremental distribution gains which will need to be cycled next year.

Q

So my question is, how are you thinking about sustaining momentum in flavored malt beverages? And are you seeing anything in terms of consumer repeat rates on these two brands that give you confidence? And being able to successfully cycle, what would be a year of tough compares in 2023? Thanks.

**Gavin D. K. Hattersley**

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

Thanks, Gerald. Look, we see these two brands as operating in quite different places, right? So, Topo Chico is way more in the seltzer space and Simply is in the flavored malt beverage space, right; the fuller flavored area. So, let's just take those two separately. Simply Spiked has been an incredible success so far. It's the number one new item in total beers since launch. We only launched it halfway through the year.

A

So, we've got a full six months next year of no compares at all. And then we've got a full six months, frankly, where we – not a full six months. It's the biggest selling season for Simply where we were severely constrained from a supply point of view, because this brand just blew our socks off from a volume point of view.

So in terms of compares, we've got a lot of tailwind behind Simply Spiked next year. We've got the production to handle it. We in-source it into Fort Worth much quicker than we were originally thinking we were going to do. And we're certainly going to innovate with Simply Spiked as well. I mean, Simply, the non-ALC version is the number one chilled juice brand in the United States.

It's found in one out of every two American households and as we look to the future, we can tap into the Simply non-ALC portfolio for ideas and how we're going to take innovation forward with Simply. So yes, strong, strong potential for this brand next year, and we have the production and the distribution gains to do that. And you're right. It was the number one flavored malt beverage this summer across many of our top retailers.

Topo Chico is slightly different, right? But just as impressive performance from our perspective. I mean, in – from a – Topo Chico in its first year of national distribution. It's growing more dollar share than any other seltzer brand

in the last 52 weeks. Molson Coors as a whole with Topo Chico and Vizzy has got the fastest growing hard seltzer portfolio of any brand in our competitor set. Obviously, Topo Chico drives a large part of that. But we've just scratched the surface with Topo Chico Hard Seltzer.

As I said, it's only got half the awareness of White Claw. It's got strong momentum and performance across the country, not only in its expansion markets like Michigan or Wisconsin or North Carolina, but also in its original markets of Texas and California. It's bringing new drinkers into the category. We over-index significantly with the Latino consumer who has typically under-indexed from a seltzer point of view.

And we've got lots of innovation planned around Topo Chico. We launched Ranch Water in January. We had Topo Chico Margarita that we launched in April, and we've got Topo Chico Spirited that's coming next year. So overall, in two very different spaces, we think we've got some really exciting innovation that's got a lot of run rate, a lot of tailwind behind it. Thanks, Gerald.

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**Gerald Pascarelli**

*Analyst, Wedbush Securities, Inc.*

Q

Got it.

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**Operator:** Thank you. And the final question today goes to Brett Cooper of Consumer Research. Brett, please go ahead. Your line is open.

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**Brett Cooper**

*Analyst, Consumer Edge Research LLC*

Q

Thank you. Gavin, as we continue to see Miller Lite advertise or position itself against Ultra, I have to assume that you're finding success in recruiting or winning consumers relative to a competing brand, but I was hoping that you could speak to the interaction between brands and your success. And then I guess this is a backward-looking question, so where we are today, but also cognizant our thinking about the competition that's coming into light beer from large brands in 2023. Thanks.

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**Gavin D. K. Hattersley**

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

A

Thanks, Brett. Look, I mean, you're right. We've got fantastic momentum behind Miller Lite right now. It grew NSR in 2021. It's growing NSR year-to-date in 2022. And we continue to believe that Miller Lite's brand positioning as a beers beer or the beer for people who just love the taste of a great beer is resonating really, really well. It's come to life across all of Miller Lite's marketing from new localization spots that resonate around football. We've got the competitive spots that show Miller Lite's superior taste compared to other light beers and one of which you mentioned in your question.

So, our marketing effectiveness for this brand has meaningfully increased over the summer period June to August. We've got strong feature and display growth through the football season. And that's paying off with our largest chain retailers with one of our largest chains. Miller Lite's now the number four brand for total beer sales and the number one most displayed brand. So, we've increased its media investment, and it's become the major sponsor of ESPN Fantasy, and it's taking share from many of its competitors, including Mich Ultra and Bud Light to name two. Thanks, Brett.

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**Brett Cooper**

*Analyst, Consumer Edge Research LLC*

Q

Great. Thank you.

**Operator:** Thank you. We have no further questions. I'll hand back to Greg for any closing remarks.

## Greg Tierney

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

Very good. Thanks, Nadia. So, I appreciate everyone's time today. I know there maybe some questions we weren't able to get to, but please follow-up with our Investor Relations team in the days and weeks that follow. And we will look forward to talking with you as the year progresses. Thanks, everybody, for joining us on today's call.

**Operator:** Thank you. This now concludes today's call. Thank you all for joining. You may now disconnect your lines.

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