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Molson Coors Beverage Co. (TAP)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Molson Coors Beverage Company Fourth Quarter and Fiscal Year 2020 Earnings Conference Call. You could find related slides on the Investor Relations page of the Molson Coors website.

Our speakers for today's call are Gavin Hattersley, President and Chief Executive Officer; and Tracey Joubert, Chief Financial Officer. Please note that this event is being recorded.

With that, I'd like to turn the call over to Greg Tierney, Vice President of FP&A and Investor Relations. Mr. Tierney, please go ahead.

Greg Tierney

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

Thank you, operator, and hello, everyone. Following prepared remarks from Gavin and Tracey we'll take your questions. Please limit yourself to one question. And if you have more than one question, please ask your most pressing question first and then re-enter the queue to follow up. And if you have technical questions on the quarter, please take them up with our IR team in the days and the weeks to follow.

Today's discussions include forward-looking statements and actual results or trends could differ materially from our forecasts. 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. The GAAP reconciliations for any non-US GAAP measures are included in our news release or otherwise available on our website. Also unless otherwise indicated, all financial results the company discusses are versus the comparable prior-year period and in US dollars.

And with that, over to you, Gavin.

Gavin D. K. Hattersley

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

Thank you, Greg, and thank you all for joining us today. 2020 was an incredibly challenging year for everyone, Molson Coors included. But in many respects, I consider us lucky. The revitalization plan we put in place in October of 2019 positioned our company well to weather the storms of 2020.

Our business was leaner and more nimble, which put us in a better position to conserve resources as the circumstances dictated and to deploy them effectively as the circumstances allowed. And the results bear that out.

When you consider what we set out to do under our revitalization plan, we accomplished an incredible amount in 2020, and that has given us a tremendous springboard for 2021. Our two largest brands, Coors Light and Miller Lite, our iconic core, grew 6.1% and 8.6% in the US off-premise, respectively.

Our above premium brands in the US reached a record high percentage of the portfolio in the second half of 2020. Beyond beer, our first foray into non-alcohol cannabis beverages through the Truss joint venture has netted the number one dollar share spot in the entire Canadian cannabis beverage market.

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We increased our production capacity for our fast-growing seltzers by approximately 400%, and we approximately doubled our annual investments in our hometown communities. That is the story of Molson Coors in 2020.

Now, you may be wondering why I have such confidence, especially if you only look at our consolidated top line results in the fourth quarter. But that number alone does not tell the full story. And if you only look at that piece of data, you'll miss it.

Our top line results in the fourth quarter were overwhelmingly due to losses resulting from government restrictions in the European on-premise channel. To put it more bluntly, Europe alone accounts for 92% of our fourth quarter top line decline.

But those results are not reflective of the performance we've seen across the rest of the business. And the story is very different in our largest market.

Well, how different? In the fourth quarter, Molson Coors grew net sales revenue in the United States. We grew the top line in the United States. Our plan is working.

So let's look deeper at our results in 2020 and what we have in store for 2021. Our first pillar under the revitalization plan was to build on the strengths of our iconic core. In the US, our largest beers, Coors Light and Miller Lite delivered 6.1% and 8.6% respective growth in the off premise. They again grew share in the premium light beer segment, and they finished 2020 with stronger brand health.

We're pleased but not satisfied with those results. So in 2021, we are going to put even more marketing behind these two iconic brands. And we're thinking big, as you may have noticed around the Big Game last weekend.

And again, I want to point something out here. We are demonstrating our ability to grow in seltzers and expand beyond beer while strengthening our core brands. We are demonstrating we can do both. The revitalization plan was specifically designed to free up resources so we can meaningfully invest behind our core, our growth in above premium and our expansion beyond beer.

In the second half of 2020, above premium products hit a record high portion of our US portfolio relative to any prior year comparable period. We doubled our share of seltzers in the US moving towards our double-digit share goal by the end of this year.

Vizzy has been a top 10 growth brand for nearly six straight months and this incredible growth has been accomplished with basically just one pack. But in a few weeks, we plan to add more firepower to that brand with a second variety pack. And a few weeks later, we plan to launch Vizzy Lemonade, a line-up we believe is tailor-made for Vizzy given its unique antioxidant Vitamin C attributes.

And we are excited about the opportunity for Coors Seltzer, which launched at the end of September. We are seeing promising signs including repeat rates that are stronger than Bud Light Seltzer and Corona Seltzer at the same point during their launch.

In 2021, we have strong plans to accelerate marketing support behind Coors Seltzer as well as its commitment to help save America's rivers. And that's just the beginning. We are about to launch Topo Chico Hard Seltzer, which is getting a lot of attention from retailers and distributors alike.

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Topo Chico mineral water is beloved in the biggest markets throughout the United Spaces, especially in Texas, a high potential market. Quickly on its heels, we plan to bring Topo Chico ranch water to market. And again, we see this brand is best positioned to take advantage of the ranch water craze that has been inspired by Topo Chico mineral water enthusiasts mixing up ranch water at home. And still to come is Proof Point, our first spirited seltzer.

When all four seltzers are in market later this spring, we believe we will boast the strongest, most differentiated seltzer line-up in the United States. And while we started behind others in the United States, in Canada and Europe, we are early entrants in the hard seltzer category.

In the next couple of weeks, we are taking both Vizzy and Coors Seltzer into Canada. In Europe, building on an existing brand partnership already in market, the launch of our [ph] own threefold brand (0:07:18) seltzer is planned for March, and we will be leading the development of the category across Central and Eastern Europe with an owned brand in the second quarter.

In above premium beers, we have high expectations for Blue Moon LightSky, which ended 2020 as the number one new beer in the United States per Nielsen. We've expanded its production capacity by approximately 400%. We're putting more marketing muscle behind it, and we believe this is a brand that's going to continue to rise for quite some time.

Our regional craft portfolio in the United States grew 17% per Nielsen in 2020, outpacing the craft segment once again. And next month, we will be taking Hop Valley national in the US and Canada. It's our first national IPO and we believe it will be another driver of growth for our above premium portfolio.

And do not forget about Yuengling. This formed – the newly formed joint venture plans to bring Yuengling to one of America's biggest beer drinking states, Texas. The reception has already been incredible and there is significant upside potential with Yuengling as the joint venture begins its westward expansion.

At the beginning of last year, we changed our name to the Molson Coors Beverage Company, and it wasn't just words. By the end of the year, our non-alc strategy came into focus. We're piloting our own brands with our partner, L.A. Libations. We've taken equity investments in other opportunities, including two with legendary non-alc innovator Lance Collins.

We signed distribution agreements to enter the fast-growing spaces like RTD coffee with La Colombe and energy drinks with ZOA through our new energy drink partnership with the leadership team led by Dwayne 'The Rock' Johnson. ZOA is getting very positive reaction from retailers and distributors. The Rock isn't just putting his name on this, he's personally making calls to retailers, and we're bringing that to market this spring. We think ZOA could be a game-changer in the energy drink space.

Truss Canada, our Canadian cannabis joint venture with HEXO launched their beverage portfolio in August. And by December, they jumped to the number one dollar share position with four of the top five cannabis beverage SKUs in Canada. And Truss USA is building on that through their first lineup of hemp-derived CBD beverages in Colorado, which entered the market in December. We are learning a lot about the exciting category following the launch.

This entire lineup is a tremendous growth opportunity for our business. It will be a driving force behind our goal to build our emerging growth division into a $1 billion revenue business by 2023. And as a reminder, that ambition does not include our hard seltzers. And we recently announced our first entry into the fast-growing RTD cocktail

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space through an exclusive equity and distribution agreement with Superbird, an above-premium tequila-based Paloma.

Last year, we also made major investments to help our business grow the top line. We invested in our e-commerce capabilities all around the globe with more staff and more robust digital capabilities. And it paid off last year with 230% growth in e-commerce in the US alone. We expanded our seltzer production capacity by approximately 400%. And we also expanded our LightSky production capacity by approximately 400%.

We completed our sleek can production line, capable of manufacturing approximately 750 million sleek cans annually. And on the topic of cans, I'm really pleased to say that our packaging material supply has vastly improved for glass bottles, paperboard and tall cans, with all returning to normal material availability. In fact, our Coors Light can inventory is higher than it was at this point last year.

And our industry standard can supply is improving. We have sourced cans from four continents and work closely with our suppliers to keep up with the very high rate of consumer demand, and we expect to return to normal material availability by the end of this quarter. We will continue investing in our capabilities throughout the year as we work to grow our ability to produce high margin above premium products.

Last but certainly not least, is how we are supporting our people and our communities. This one is particularly important to me. When I took over as CEO, I made it clear that I want Molson Coors to have a people-first culture and that approach guided our decision-making throughout the last year. The work in this space is never done, but we are making important progress.

Last summer, we set a goal of increasing the representation among people of color in the United States by 25% by the end of 2023 across the country among salaried employees and in leadership positions, each where market availability shows we have room for improvement. We have made progress towards that goal and we expect to continue to do so. We also increased our support for organizations dedicated to equality, empowerment, racial justice and community building and provided nearly 3 million meals to families in our hometown communities struggling with food and security. But we must do more.

So today, I'm proud to announce that not only will we recommit to matching last year's investments in our communities, we have also committed to spend a total of $1 billion with diverse suppliers over the next three years. This is a commitment that benefits all of us. A wider base of talented suppliers with different backgrounds and life experiences will be a benefit to our company. And the diverse suppliers who earn our business will be able to, in turn, hire more talented employees into their businesses.

Last summer, we said that Molson Coors' response to addressing racial injustice would not just be a moment in time, passing thing, set aside and forgotten as other priorities took over. That would be unacceptable. Our commitment to investing in our communities and striving for equal opportunity for all people will not fade.

Even with the unforeseeable challenges of last year, we built on the strength of our iconic core. In the second half of 2020, we achieved a record high portion of our US portfolio in above premium products.

We expanded beyond the beer aisle, we invested in our capabilities, we supported our people and our communities, and we are not about to stop now. When I took over this role, I told you that we would plan and invest to grow our top line and we're going to follow through on this and we're on the pathway there. Folks, this is our revitalization plan in action. I know there have been questions about whether or not we can execute all of this, but no one has to wonder any longer. We are doing it right now, today.

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And now I'll turn it over to Tracey, who can provide you with more details on our financial performance and our outlook for 2021. Trace?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin, and hello, everyone. The coronavirus pandemic had a significant impact on our 2020 financial performance, primarily due to the on-premise restrictions and lockdown. Our Europe business was the most impacted, particularly in the UK where our business skews heavily towards the on-premise and drove revenue and EBITDA declines in both the fourth quarter and for the full year 2020.

In fact, Europe, which accounted for only 15% of our revenue in 2020, contributed to 61% of revenue decline and 83% of our EBITDA decline for the year, and 92% of the revenue decline and 56% of our EBITDA decline for the fourth quarter. Despite these incredible challenges in 2020, we are proud of our resilience and the financial performance as we have navigated through this unprecedented time.

Now, let me take you through our full year performance, and then I'll touch on our quarterly results before moving on to our outlook. Recapping the year, consolidated net sales revenue decreased 8.7% in constant currency, of which North America was down 4.3% while Europe was down 28.4% on a constant currency basis. While we delivered net pricing growth in North America and Europe as well as positive brand and package mix in the US, this was more than offset by volume declines and unfavorable channel mix, principally driven by varying degrees of on-premise restrictions throughout much of the year due to the coronavirus pandemic, which also drove packaging material constraints due to the unprecedented can demand.

Brand volumes declined 7.8% and financial volumes declined 8.9%. North American shipment trends improved in the second half of the year as certain packaging material constraints eased and we built distributor inventory.

Net sales per hectoliter on a brand volume basis grew 1.1% in constant currency due to pricing growth in North America and Europe as well as positive brand and package mix in the US. The success of our above premium innovations, including Vizzy, Blue Moon LightSky and Coors Seltzer, helped drive [ph] US net (0:16:52) sales per hectoliter up 2.3% for the year.

Underlying COGS per hectoliter increased 2.8% on a constant currency basis, driven by cost inflation, including higher transportation costs, volume deleverage and mix impact from premiumization in North America, partially offset by cost savings. Higher can sourcing costs in North America contributed to the higher cost inflation.

After the onset of the coronavirus pandemic, we aggressively began sourcing additional aluminum cans from all over the world to support our core brands to address unprecedented off-premise demand. Also, we saw a tightening of the freight market throughout the year, which has led to higher transportation costs.

Underlying MG&A decreased 9.9% on a constant currency basis as we quickly took action, pivoting spend away from areas impacted by the coronavirus pandemic, particularly live entertainment events and sporting events due to shortened or delayed seasons, such as the delayed start of the NHL season into 2021.

In the second half of the year, we began to progressively increase marketing spend, particularly in social and TV media, stepping up support behind our new innovations, such as Vizzy, Blue Moon LightSky and Coors Seltzer in alignment with additional supply coming online as well as continuing to support our core Coors Light, Miller Lite and other iconic core brands.

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MG&A declines were also driven by targeted cost mitigation actions and significant cost savings in the first year of our revitalization cost savings program. In aggregate, we delivered approximately $270 million across MG&A and cost of goods sold, keeping us on track to meet our $600 million target in total gross savings. These reductions were offset by innovation spend and cycling lower incentive compensation and a non-recurring vendor benefit in the prior year, which we referenced last quarter.

As a result, underlying EBITDA decreased 10% on a constant currency basis. Underlying free cash flow was $1.3 billion for the year, a decrease of $104 million from the prior year driven by lower underlying EBITDA and higher cash taxes, partially offset by favorable working capital.

The working capital benefit was driven by the deferral of approximately $130 million in tax payments on various government-sponsored payment deferral programs related to the coronavirus pandemic, of which we currently anticipate the majority to be paid in 2021 as they become due.

Capital expenditures incurred were $530 million for the year. With improved liquidity and strong cash management, we were able to accelerate certain investments in expanding our production capacity and capabilities to support new innovations and growth initiatives.

In addition to the strong free cash flow performance, we made tremendous strides in improving our financial flexibility, including continuing to pay down debt, favorably amending our US revolving credit facility and suspending our dividend in May for the remainder of 2020.

We reduced our net debt position by $1.1 billion in 2020 and reduced our trailing 12-month net debt to underlying EBITDA ratio to 3.5 times as we remain committed to maintaining our investment-grade rating.

Now, let's discuss the fourth quarter, where, again, Europe due to the on-premise lockdown had a significant and disproportionate impact on our results. Consolidated net sales revenue declined 8.3% in constant currency, principally due to financial volume declines as a result of the on-premise restrictions, along with corresponding negative channel mix partially offset by net pricing growth in North America and Europe as well as positive brand and package mix in the US.

North America net sales revenue was down 1% in constant currency. However, in the US, despite increased on-premise restrictions and aluminum can supply constraints, we delivered net sales revenue growth of 1.9% in the quarter. And we continue to build distributor inventory in the US, with brand volumes down 6.2% compared to domestic shipment declines of 2.3%.

Growth in the US business was more than offset by lower volumes and negative mix in Canada, and to a lesser degree Latin America, as a result of the on-premise restrictions.

In Europe, net sales revenue was down 39.4% in constant currency, driven by volume declines and negative mix due to increased on-premise restrictions with the most meaningful in the UK, which experienced a return to almost total on-premise lockdown for November and the historically strong month of December. And with the subdued nature of many festive celebrations during the fourth quarter, we did not see a big shift of volume into the off-premise.

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Net sales per hectoliter on a brand volume basis increased 3.7% in constant currency, reflecting net pricing growth in North America and Europe, more than offsetting the negative mix effects of the various market dynamics and consumer shifts caused by the coronavirus pandemic.

In the US, net sales per hectoliter on a brand volume basis increased 4.2%, driven by favorable sales mix from new innovations and strong net pricing growth while in Europe, net sales per hectoliter on a brand volume basis decreased 8.2% due to unfavorable mix, particularly driven by the higher-margin UK business, which more than offset pricing increases.

Underlying COGS per hectoliter increased 6.4% on a constant currency basis, as we saw a greater impact on freight inflation and US mix premiumization in Q4 compared to the full year.

MG&A in the quarter increased 5.8% on a constant currency basis due to higher planned marketing spend to support our core brands and key innovations as well as cycling lower incentive compensation and a non-recurring vendor benefit in the fourth quarter of 2019. This was partially offset by cost savings and lower discretionary spend. As a result, underlying EBITDA decreased 33.6% on a constant currency basis, disproportionately driven by Europe.

Given the length and severity of the impacts of the coronavirus pandemic on our Europe business as well as the protracted recovery currently expected in certain on-premise markets, we recognized a goodwill impairment charge of $1.5 billion in our Europe segment. We also recognized a $39.6 million of asset impairment charges in our North American segment. These charges are non-cash and are not included in underlying results.

So this takes me to our financial outlook. As you may recall, on March 27 of last year, we withdrew our guidance due to the uncertainty driven by the coronavirus pandemic. While uncertainty remains, in an effort to help enhance visibility we have determined to reinstate our practice of providing guidance. We have also determined to adjust the metrics provided, which includes adding guidance for net sales revenue, a metric which aligns with our revitalization plan goals for driving top line growth, as well as net debt to underlying EBITDA leverage ratios given our commitment to remaining investment grade.

We are very proud of our performance and agility in navigating the coronavirus pandemic and executing against our revitalization plan, but recognize that headwinds remain. The pandemic continues to impact our business due to on-premise losses across all our geographies and disproportionately so in Europe as well as Canada. We expect the domestic shipment trends in the US to continue to be higher than brand volume trends in the third quarter as we continue to build inventories heading into the peak season.

For the year, we maintain our annual goal of shipping to consumption in the US. In Europe, we continue to experience significant lockdowns and expect third quarter volumes will be materially impacted versus the prior-year period, similar to what was experienced in the fourth quarter of 2020.

For 2021, we expect to deliver mid-single-digit net sales revenue growth. 2021 is intended to be a year of investment as we continue to deliver our revitalization plan and drive towards long-term growth. This entails increasing year-over-year marketing spend to build on the strength of our core brands and support our successful 2020 launches, including Blue Moon LightSky, Vizzy and Coors Seltzer and new innovations to come as well as investing in further expanding our capabilities to drive productivity and efficiencies.

We expect significant increases in spend beginning in the second quarter versus the prior-year comparable quarter. While we continue to expect revitalization plan savings as I discussed, given this increased investment,

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along with cost headwinds related to higher inflation, including transportation costs and continued premiumization of our portfolio, we anticipate 2021 underlying EBITDA to be approximately flat compared to the prior year. We anticipate underlying depreciation and amortization of $800 million, net interest expense of $270 million, plus or minus 5%, and an effective tax rate in the range of 20% to 23%.

We entered 2021 with greatly improved financial flexibility, better enabling us to not only continue to invest in our business, but to continue to pay down debt and return cash to shareholders in 2021. As I mentioned, we significantly reduced our net debt position by $1.1 billion in 2020 and reduced our leverage ratio to 3.5 times as of December 31, 2020. We are proud of this progress and are establishing a target net debt to underlying EBITDA ratio of approximately 3.25 times by the end of 2021 and below 3 times by the end of 2022.

And we currently anticipate that our Board of Directors will be in a position to reinstate a dividend in the second half of this year. We are doing all of this while continuing our commitment to maintaining and in time upgrading our investment-grade rating.

Given the operating environment, we are pleased with our 2020 financial performance, which underscores our strong progress against our revitalization plan and the resilience of our company and our people [indiscernible] (0:28:29) to successfully navigate and overcome challenges posed by the coronavirus pandemic.

While these challenges had created some near-term fluctuations in financial and operating results, we are confident we're on the right path of driving towards long-term revenue and underlying EBITDA growth. We look forward to updating you on our continued progress.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question today comes from Andrea Teixeira with JPMorgan. Please go ahead.

Kojo Achiampong
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, guys. It's actually Kojo on for Andrea.

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

A

Hi.

Kojo Achiampong
Analyst, JPMorgan Securities LLC

Q

Just at a high level – hey, how are you? Just at a high level, we were just wondering if you could provide a little bit of color there on how depletions have trended quarter-to-date in both North America and Europe.

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

A

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Look, we don't provide guidance on in-month depletions, lots of ups and downs. But from a European point of view, as Tracey said in the opening remarks, the on-premise remains in lockdown. And so we expect the first quarter volumes in Europe and particularly in the United Kingdom to be challenged. From a US point of view, the lockdowns remain, although it does vary from state-to-state. And we do see a loosening of the on-premise restrictions, both in North America and in Europe as we progress into Q2 and further on into the year.

From a supply point of view, just reiterate my comments in the script that our Coors Light can supply has much improved and our inventory levels are actually higher than they were at the same time last year. So we're well positioned to take advantage of the brand health strength of Coors Light.

Next question?

Operator: The next question comes from Kevin Grundy with Jefferies. Please go ahead.

Kevin Grundy
Analyst, Jefferies LLC

Q

Great. Thanks. Good morning, everyone. I wanted to spend some time on Europe, just given the impact in the quarter. So obviously, pretty challenging, both from a revenue and profitability perspective. Understanding that the impairment charge is non-cash, it naturally signals a less confident outlook and ability to return to levels of profitability perhaps you previously thought, at least within a reasonable amount of time when you're doing the discounted cash flow model.

So Gavin, good to get your updated views on your outlook for this business, strategic fit within the portfolio and how you're thinking about the cost structure given this less constructive outlook. And then, Tracey for you, relatedly, not to get too much in the weeds with this, but I'm just trying to understand the margins in the quarter. So the top line pressure in the second quarter was worse than the fourth. But the margin performance was clearly a lot more pressured.

The decremental margins in the second quarter about 25%, closer to 60% in the fourth quarter. It just seemed like there was a better ability to flex down MG&A in the second quarter than there was in the fourth. I think it would be useful for folks if you could maybe spend a little bit time on that. So thank you both, and I'll pass it on.

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

A

Thanks, Kevin. And I'll talk about Europe and performance specifically. Look, I mean, the on-premise restrictions in Q4 were fairly draconian. There was somewhat of a scattergun approach across Europe, which has made it a little harder for us to plan and react to, particularly on the cost line.

When you compare Q4 versus Q2, the impact for Q4 was particularly pronounced because December has historically been a very strong month for the on-premise in the UK given the holidays. And of course, you can't be outdoors that much comfortably in the fourth quarter as much as you can be in the second quarter. It's also a seasonally lower trading period in Central and Eastern Europe.

So we saw similar declines in the second and fourth quarters from a volume perspective, but the on-premise restrictions in the second quarter were more uniform. So it made it easier for us to plan. Certainly, the lockdowns, as I said earlier, have continued into the first quarter.

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We did make some conscious decisions in Q4, Kevin, to invest behind our core brands, not only in the United States but also in Europe and in particular in Central Europe. We've got some strong brand – strong healthy brands, and we wanted to make sure we positioned ourselves for sustainable recovery in 2021. So that explains why the MG&A in Europe was a little higher than you might have been expecting. We were investing behind our brands.

What else question there?

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

Yeah. So, Kevin did ask about the strategic outlook.

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

Oh okay. Yeah, look, I mean, Kevin, our top priority as a company as a whole is to make sure that we emerge strong coming out of the pandemic when the on-premise returns to more normalized levels, and this includes Europe, which we continue to view as a strategic asset.

Kevin Grundy
Analyst, Jefferies LLC
Q

Thanks, Gavin.

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

And then maybe if I can just jump in on the margins. So, yeah, in Europe in Q4, we focused our marketing investment on specific brands and markets where we had capacity, and we needed to ensure that we were competitive in the context of share of voice and brand health metrics. And so the investments that we made in Q4 in Europe were to support the ongoing performance of our national champion brands and our premiumization. And then also just to note, we were cycling comparatively much lighter spend in Q4 of 2019 in Central Europe. So that would account for some of the margin differences.

Kevin Grundy
Analyst, Jefferies LLC
Q

Okay. Thank you very much. A bunch of questions, but I'll pass it on. Thank you.

Operator: The next question comes from Kaumil Gajrawala with Credit Suisse. Please go ahead.

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

Hi, good afternoon, everybody. Can you talk a bit about your expectations for the on-premise for 2021 as it relates to what you've incorporated into your guidance and what sort of – and specifically to the US, and what rate do you expect it to recover? How much does that contribute to your numbers?

And then if you could also maybe help us with mechanically what that means for your business, I believe your shares are higher off-premise. We kind of know that over the course of 2020, large pack sizes started – took a larger degree of share from the rest of what was being sold at food retail, that obviously will look very different

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when we get to an on-premise, a more normalized on-premise environment. So is that a – are you a net share beneficiary as the on-premise turns back on? Does it work the opposite direction? If you could help us with some details there, that would be helpful. Thank you.

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

A

Thanks, Kaumil. Yeah, a lot in there, let me try and give you some context. Obviously, the reality is the situation remains fluid and it varies market by market. In the third quarter of last year, we did see some on-premise re-openings pretty much across the board in the countries in which we operated. And during the fourth quarter, we saw a return to much more severe on-premise restrictions as most countries went back into strict lockdowns and there was no benefit of outdoor dining given the climate.

In terms of our major markets in the UK, the government operated a tiered system of restrictions in October, and then they followed that up with a national lockdown in November. They've returned to a tiered system in December, but pretty much the UK is locked down as we speak.

In North America, Canada was particularly impacted more than the US from a lockdown point of view, it was a stricter lockdown. And then we really did see varied pictures across the United States depending on which state. So from an on-premise performance point of view in the United States, it's been fairly stable for a while now. There's no big spike up or down.

In terms of market share, we think that the consumer moving to big and trusted brands will benefit us in all the markets in which we operate and where we have seen re-openings, we've seen that play through from a market share point of view. So I think we will be net beneficiaries when that takes place. I mean, obviously, in our above premium portfolio, we were very pleased with our performance in above premium in the fourth quarter, and that's in the face of Blue Moon and Peroni, which are strong on-premise beer brands, being obviously challenged because of the lack of on-premise. So we expect that when the on-premise comes back more fully, that those two brands will be big beneficiaries of it.

If you look at the UK, which is our largest – which is the market which has the largest on-premise exposure, we demonstrated a sustained track record of growing our share in the on-premise in the UK – well, for at least five years pre-pandemic, we've grown our share in the on-premise as we've driven to be first choice for our customers, and in fact, just learned this week that we were number one again with our customers in the Net Promoter Score survey across the trade in 2020.

So we've got contracts to supply many of our competitors in both the retail and wholesale models. Our customers value the service that we bring through our own brands and also our wholesale brands. And so we believe we're well positioned to gain share in the UK market when it reopens. I think I got all your questions there, Kaumil.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Yeah, you did. And it was probably unfair, it was a lot of questions in one. If I can – so let me ask just a follow-up on the portfolio and maybe your best guess – you've announced a series of deals over the last number of months. If you were to maybe give us a – can you give a best guess of what your portfolio breakdown is likely to look like by the end of the year? Is it still likely to be about two-thirds premium lights, followed by high end and I don't know how much non-alc will be as part of it. But maybe just give us some idea of if we put all of these deals together, how your portfolio may look different as we move forward with the rollouts of these products in the next 12 months?

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

A

Let me try and give you some color there, Kaumil. Obviously, we've been very clear about the objective in our revitalization plan of driving our above premium portfolio and our beyond beer portfolio. Almost all of the deals we've done come at above premium margins.

So that was two of the five focus areas in our revitalization plan that we announced in October of 2019. And we're going to continue building on that. You could see the results of that in both the third quarter and the fourth quarter with a positive mix which we generated. We generated another quarter above 200 basis points of positive mix, which is continuing to reflect our growth and performance in above premium. Per Nielsen, we actually grew share of above premium despite the on-premise challenges which brands like Blue Moon and Peroni have experienced.

We think that – yeah, we obviously put out the ambition of getting to $1 billion revenue for our emerging growth division, which is going to require that many of our partnerships that we've just announced, like our ZOA partnership, La Colombe and so on are successful. And they're coming off a standing start of zero, because we didn't have them before.

I'd also point you to the fact that we actually grew the top line in the very market where concerns have been expressed about our ability to execute. We grew the top line in the fourth quarter despite all these deals that we've done and the challenges that we faced. And we're going to build on that in 2021.

There is a lot of excitement from retail and from our distributors with the deals that we've done particularly brands like ZOA and Topo Chico, a lot of excitement. And that will continue to improve our above premium mix. Hope that's helpful.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, great. Thank you.

Operator: The next question comes from Sean King with UBS. Please go ahead.

Sean R. King
Analyst, UBS Securities LLC

Q

Hi. Good afternoon. I guess, my question is, with hard seltzer becoming a larger portion of the mix and I guess the growth story going forward, can you discuss, I guess, the gross margin profile of that business for you and how that could change over time.

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

A

The hard seltzer has been a very strong growth category. We believe that's going to continue in 2021. And we're excited about our opportunity for hard seltzers. We think we've got one of the strongest portfolios of hard seltzers with each brand having a very unique perspective on the category. So by the time that we have all four of our hard seltzers in market this year, we think it's differentiated, provides a differentiated offering for our consumers, and I think we're well placed.

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And seltzers do operate at the upper end of the above premium price points, and therefore, operate at the sort of upper end of our margin structure. We don't give it out publicly specifically, but you can be assured that it's high.

Sean R. King
Analyst, UBS Securities LLC

Q

Great. Thank you very much.

Operator: The next question comes from Chris Carey with Wells Fargo. Please go ahead.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. I guess, just conceptually, trying to understand how you think about the off-premise channel in 2020, certainly, there was more strength there, as there was a channel shift. But I guess I'm also hearing that it sounds like you think there is some sustainability to the growth that you've seen there, and certainly, you're going to be investing behind that.

And so – and I guess underlying the question is I'm trying to understand what you think might be sustainable coming out of this year and certainly in 2021, if the recovery of the on-premise is a bit slower than what might happen, just trying to understand sensitivities around what's needed to occur in the off-premise in order to get you to this top line growth algorithm? Thanks.

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

A

Certainly believe that there will be some sustainability to the off-premise demand. I think consumers have learned new behaviors and new occasions have been created. So I think there will be some sustainability of it. Now obviously, we don't believe that it's going to continue to grow at the same level, but there certainly will be sustainability to the underlying trend.

There is a very large pent-up demand for on-premise from consumers. And so I think when the on-premise is more readily open, I think we'll see a strong pent-up demand from consumers.

The other behavioral change which we have obviously experienced in 2020 is the growth of e-commerce sales. Many consumers of alcoholic beverages, they didn't realize you could buy a beer online, and they do now. And we've seen a 230% increase in our online sales. And I think that that trend will stay and that's why we're making investments in our e-commerce capabilities.

Thanks, Chris.

Operator: The next question comes from Bonnie Herzog with Goldman Sachs. Please go ahead.

Bonnie Herzog
Analyst, Goldman Sachs

Q

Thank you, hi, everyone. I guess I'd like to hear a little bit more color on how you're thinking about balancing your investment needs between your recent innovations and some of the launches with marketing support behind your core brands. I guess what I'm still maybe struggling with is how you plan to stabilize or maybe even improve your

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core business if a lot of your stepped-up investment spend and attention is going to be focused behind all these new initiatives?

And then Gavin, maybe you could help frame for us some of your targets or ambitions for your core business, similar to how you're framing the opportunities and some of the goals you put out there for all these new and exciting brands and partnerships. I think that would be helpful. Thank you.

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

A

Thanks, Bonnie. Look, I mean, our revitalization plan, which we announced in October 2019, required us to do both, and that was our – that's our plan, and it remains our plan. Investing behind our iconic core brands and investing behind above premium and investing behind our beyond beer portfolio is the plan. Tracey mentioned in the guidance, approximately flat EBITDA, and that's really the revitalization planning coming to life with our big investments behind both Miller Lite and Coors Light, which will see more spend this year.

We'll put more spend behind our above premium portfolio with Blue Moon LightSky and Blue Moon. We'll put more money behind seltzers. We will have four seltzers in market this year. We only had two. One was launched in April. The other one was launched in September. This year, we're going to have four as we strive to get to the 10% market share. And we're going to be investing behind our new ventures like ZOA and La Colombe and also our Yuengling joint venture.

In terms of actual performance, Bonnie, Coors Light and Miller Lite have performed really well in spite of the headwinds which they've got. We've made numerous pivots from a marketing point of view to meet the changed circumstances. And where necessary, we've put marketing money behind it, in the fourth quarter, for example.

From a media perspective, we shifted our media to places like social gaming, podcasts, online, video and so on and from a creative point of view, we've created a new credit, which has resonated with consumers. We've actually created 40 pieces of new credits since March. A lot of that has been behind Miller Lite and Coors Light.

I mean just some examples of that would be our Farewell Work Holiday Party for Miller Lite, and then our campaign to get Tom Flores into the Pro Football Hall of Fame with Coors Light and you can see the benefits of that for both of those brands.

I mean, Coors Light drove significant share growth in the first half of the year. It did slow down in the third quarter because of the inventory supply constraints which we had, which we're now through because our inventory is higher than it was at the same time last year for Coors Light. And in December, we saw the best industry share trend we've seen in years outside of the entry load – loading for March for Coors Light.

So, the Made to Chill campaign platform is working, and we're excited about it. And Miller Lite's share trends have been strong. Now, obviously, as I said in my opening remarks, we're not satisfied with the performance until – and we intend to put more money behind it.

So that's a very long-winded way of saying, it's both. It's not either or. We're not sacrificing one for the other. We believe that we can do more than one thing at one time, and we believe that we demonstrated it, because the market where we've had the most concern about our execution capability is the US, and we've grown our top line, we grew our margin. Strong pricing, strong brand mix. This is the revitalization plan in action. It's not a series of one-offs. It's all part of a single strategy, and that's the revitalization plan, which is specifically aimed to drive top line growth, and we believe we will do that in 2021.

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Bonnie Herzog
Analyst, Goldman Sachs

Q

Okay. Thank you so much for all that. It was helpful. I appreciate it.

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

A

...Bonnie.

Operator: The next question comes from Rob Ottenstein with Evercore ISI. Please go ahead.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. Gavin, obviously, a lot of tremendous initiatives that you have for 2021, and clearly you're very optimistic in terms of the firm's trajectory. However, obviously, there is a bit of a disconnect in terms of how the public markets are viewing your outlook and prospects. Just wondering what your thoughts are in terms of share buybacks at some point? I know you talked about a very significant deleveraging, bringing the dividend back, how does the potential for share buybacks play into this if this disconnect continues?

And also maybe, Tracey, remind us about your cash tax rate, which I believe, remains very advantaged, kind of roughly what that level is and how long it stays at that depressed or lower level. Thank you very much.

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

A

Thanks, Rob. Good morning. Look, I mean, we – as I said earlier on, we announced our revitalization plan in 2019, and we're executing that revitalization plan. I'm very pleased with the platform that we laid in 2020, and I think it gives us a really good springboard for 2021, which is why we felt confident with the with the guidance that we've put out there.

So I understand there's skepticism around our ability to execute, but we wouldn't be putting guidance out if we didn't believe that we would achieve it. Tracey was very clear about our leverage goals. I'll let you comment on our capital allocation, Trace, which I think was the underlying question that Rob had.

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

A

Yeah, so – hi Rob. So yeah, obviously, we are having ongoing conversations around our capital allocation with our board. Our focus has been on improving our leverage ratio because of the commitment to maintain our investment-grade rating as well as investing in our business to deliver the revitalization plan which is around top line growth.

So as always, we had looked at our capital allocation basket to have a look at what gives us the highest – or what gives our shareholders the highest rates of return. We ran through – everything through our PACC model to make those decisions. But our intention is to continue to pay down our debts to improve our leverage ratio.

And as I said in the prepared remarks, it is important for us, and we said this on the Q3 call as well, as soon as appropriate to reinstate the dividend, and as I said in the guidance, that's something that we do anticipate our board will be in a position to reinstate in the back half of this year. So, just in terms of the tax cash question, so

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yes, we do still get a benefit from the step-up as we did with the MillerCoors acquisition. And that does still run for another few years, Rob, but...

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Can you remind us what exactly that rate, what you expect – what that rate was in 2020 and what you expect it to be in 2021?

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

A

Yes. So we don't actually give that guidance and we didn't – other than giving the guidance that we've given you now on the consolidated effective tax rate for 2021 being between 20% and 23%.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

But isn't the cash tax rate half that?

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

A

Yeah. That's work in progress, but it is – it does reduce the tax rate fairly significantly, Rob.

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

A

From a cash point of view.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Okay. All right. Thank you very much.

Operator: The next question comes from Bryan Spillane with BoA. Please go ahead.

Bryan D. Spillane
Analyst, Bank of America Securities

Q

Hey, good morning, everyone. Just maybe a follow-up question on cash flow; I don't think I saw it, but Tracey, could you help us a little bit with what you're expecting for capital spending for this year, and also maybe tied to that, how we should think about free cash flow conversion in 2021? Are there any, sort of, big moving parts that we should consider in terms of free cash flow, and again, some help with CapEx would be helpful as well?

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

A

Yeah. So Bryan, we looked at our metrics, our guidance metrics for this year to really align with our strategy around our revitalization plan goals. And then also look at metrics, which aligns with our commitment to maintain and over time improve our investment-grade rating. So we haven't given CapEx and we haven't given free cash flow because we do believe that the target leverage ratio metric is more meaningful and more aligned to our strategy.

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Bryan D. Spillane
Analyst, Bank of America Securities

Q

But we're going to have to put a CapEx estimate into our cash flow statement, I mean, is it – is 2020 a reasonable, sort of, guide to use? Just any kind of help at all just to get some sense of what we should be flowing in there.

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

A

I would say the guidance that we gave back in 2020, which we subsequently withdrew, would be the sort of range of CapEx that you'd expect there. There is nothing significant that we've got planned at this stage.

Bryan D. Spillane
Analyst, Bank of America Securities

Q

Okay, great. Thank you.

Operator: The next question comes from Laurent Grandet with Guggenheimer (sic) [Guggenheim] (0:57:07). Please go ahead.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Yeah, good morning, everyone. And thanks for squeezing me in. Had a question regarding the beyond beer, so many on that front, there is almost not a week without a new product showing up. So a key question from investors is about your ability to prioritize and not to disrupt your core business. So could you please give us maybe [indiscernible] (0:57:34) on that front in terms of execution?

And secondly, you mentioned you should reach about $1 billion in net sales by 2023, and that doesn't include hard seltzers. So could you please help us frame how you get there because it's kind of three years to get to $1 billion from almost zero? So that will be super helpful. Thank you very much.

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

A

Thanks, Laurent. Look, couple of things in there. From a – we've been pretty consistent about one thing, right, is our revitalization plan requires us to do more than one thing at a time. It does both. And I think our fourth quarter is a fine example of that. We grew our top line in the US. We grew our net sales revenue per hectoliter meaningfully. We had positive brand mix and we demonstrated that we could deal with complexity.

I mean, the structure that we put in place in our company was designed to deal with complexity. We've got a team that focuses on the core brands; I'm very pleased with what they've done with Coors Light and Miller Lite and our other legacy iconic brands. And then we've got a team that focuses on beyond beer that's executing against that. So it's exactly as we laid out the revitalization plan and we're demonstrating that we can do that in our largest market.

In terms of the $1 billion revenue ambition for emerging growth, it does encompass a number of areas in the emerging growth. So we're not coming from a standing start. We do have all our craft companies in that area. We have our non-alc division. We have our cannabis THC-infused beverages, RTDs and our CBD business. It also includes all of our Latin America exports and license markets. So in order to get to $1 billion, we're going to have

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to grow our top line for the emerging growth division by 50% to give you some idea of the base that we're coming off. So hopefully that's helpful, Laurent.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Yeah. Thank you very much. Good luck guys.

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

A

Thank you.

Operator: The next question comes from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Thanks and good morning. Yeah, just one more question for me on the beyond beer topic, Gavin. I mean you've highlighted a lot on this call, but I guess I'm hoping you could talk a little bit more about the economics of that beyond beer push whether in terms of penny profit or margins, especially when it comes to the distribution deals that you've been tacking on. You mentioned ZOA couple of times with enthusiasm, for example. I'm just curious, do you think you can clarify how those relationships are structured from the perspective of the Molson Coors shareholder.

I mean if ZOA truly is a game-changer in the energy market, that would be great. But I guess how are those profits to be split between you, your distribution partners, and the brand owner itself? Thanks.

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

A

Yeah. Thanks, Steve. Look, I mean, each deal that we've done has been done differently and structured differently. I think it's safe to say that they all operate in the above premium space from a revenue point of view.

Some of these deals, we've taken equity stakes in, some bigger than others. But we wouldn't be going into this if we weren't intending to make money on these deals. We've got such a route-to-market advantage from our perspective. The biggest channel for energy drinks, to pick on ZOA, is C store and nobody serves the C store channel better than beer distributors. And so we think we've got some real structural advantages there.

But we're not going to break down each and every deal that we've done. Rest assured that our intention is that these are above premium products and that we will make money on them and that we will have equity in most of the deals that we've done.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you very much.

Operator: The next question comes from Lauren Lieberman with Barclays. Please go ahead.

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Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Hi, thanks, good morning. I think to some degree, you've kind of covered this. But my question was really just thinking about the EBITDA outlook for 2021. If I just think about it in terms of rate of growth, flat versus 20%, it's actually better than I thought would be the case. Now obviously, in dollar terms, the basis is lower because of the fourth quarter.

But just thinking about that in the context of the timing with which you'll be kind of pulsing marketing spending back in – and I'm not asking for quarterly guidance, it's more of a conceptual conversation I'd like to have; is it kind of investing ahead of recovery? Is it investing concurrent with, but just how you're thinking about marketing versus revenue growth and supporting some of the newer initiatives, could be some helpful and interesting perspective.

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

A

Thanks, Lauren. Let me try and give you some color, without giving you our quarterly budgets. And I would – I think you can expect that the second quarter would be a meaningful increase in marketing and sales spend because there was such a dislocation in the second quarter last year, where we – so much just didn't happen, and we were pivoting and still trying to figure out what this pandemic meant.

So I think it's safe to say that our marketing spend in Q2 will be quite a lot higher than it was in Q2 of last year. Beyond that, we'll be investing behind our innovations. So – and going behind Miller Lite and Coors Light at the appropriate times of the year. But I think the biggest piece of guidance I can give you is Q2 will be a meaningful increase.

Thanks, Lauren.

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

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

Thank you, operator. Appreciate everybody joining us today and I know there may be additional questions we weren't able to answer. Please follow up with me and our IR team with any of those questions and we look forward to talking with many of you as the year unfolds. With that, thanks, everybody, for participating in this call and talk to you all soon. Thank you.

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

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