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EDITED TRANSCRIPT

TAP - Q3 2012 Molson Coors Brewing Company Earnings Conference Call

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OVERVIEW:

Management discussed 3Q12 results, reporting underlying earnings of \$248.9m and underlying EPS of \$1.37.



CORPORATE PARTICIPANTS

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Bryan Spillane *BofA Merrill Lynch - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to the Molson Coors third-quarter 2012 earnings conference call. Before we begin, I will paraphrase the Company's Safe Harbor language.

Some of the discussion today may include forward-looking statements. Actual results could differ materially from what the Company projects today, so please refer to its most recent 10-K and 10-Q filings for a more complete description of factors that could affect these projections. The Company does not undertake to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made.

Regarding any non-US GAAP measures that may be discussed during the call, and from time to time by the Company's executives, in discussing the Company's performance, please visit the Company's website, www.MolsonCoors.com, and click on the financial reporting tab of the Investor Relations page for a reconciliation of these measures to the nearest US GAAP results. Also, unless otherwise indicated, all financial results the Company discusses are versus the comparable prior-year period and in US dollars.

Now, I'd like to turn the call over to Peter Swinburn, President and CEO of Molson Coors.

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Thank you, Chrissy. Hello, and welcome, everybody, to the Molson Coors earnings call. Thank you for joining us today.

With me on the call this morning are Gavin Hattersley, Molson Coors' CFO; Dave Perkins, CEO of Molson Coors Canada; Tom Long, CEO of MillerCoors; Mark Hunter, CEO of Molson Coors Central Europe; Stewart Glendinning, CEO of Molson Coors UK; Kandy Anand, CEO of Molson Coors International; Sam Walker, Molson Coors' Chief Legal and People Officer; Zahir Ibrahim, Molson Coors' Controller; and Dave Dunnewald, Molson Coors' VP of Investor Relations.

On the earnings call today, Gavin and I will take you through highlights of our third-quarter results for Molson Coors Brewing Company, along with our outlook for the fourth quarter.



The third quarter was our first full reporting period following our Central European acquisition. The addition of this business provided more than \$60 million of pretax earnings accretion on an underlying basis and net of related interest expense. Strong results in the US also contributed to our bottom-line growth.

As to our results, underlying after-tax income increased more than 17% to \$249 million and underlying EPS grew more than 20% to \$1.37 per share. Gross margin and underlying operating margin, including our share of MillerCoors, both increased significantly with the addition of the Central Europe business this year. Regionally, the US had another good earnings quarter, up 16%, while the UK, Canada, and our International business reported lower earnings with the Canada beer market being particularly weak in the third quarter.

In local currency, Central Europe underlying earnings increased nearly 16% on a pro forma basis. Negative currency movements, however, meant Central Europe pro forma earnings decreased 2.2% in the third quarter. Central Europe pro forma volume declined 1.5% due to a decrease in consumer demand, particularly in September, but we maintained solid market share in the region. Gavin will provide additional financial highlights in a minute.

With respect to our brands, third-quarter Coors Light brand sales to retail grew market share in the US, the UK, and in Canada. In Central Europe, we grew share in the majority of our markets, and Staropramen brand grew volume at a low double-digit rate in the region.

Our premium craft brands in the US and Canada substantially outperformed the industry to grow market share in the quarter. Miller Lite declined mid-single digits, but reduced its trend graph to the overall market versus the first half of the year. The Carling brand grew share in its biggest channel, the on-premise, in a very weak UK economy, whilst Coors Light is growing at a strong double-digit rate and is now our second-biggest brand in the UK.

Nonetheless, we saw a decline in consumer demand across our businesses in the third quarter, and we expect the fourth quarter to be the most challenging of this year, with difficult profit comparisons in Canada and the UK and higher costs in the US and Central Europe. In this challenging macroeconomic climate, we have consistently said that in addition to growing our brands we would aggressively drive costs out of our business.

In the third quarter, our Resources for Growth program delivered \$22 million in saving, bringing total program savings to \$172 million since 2010. In Canada and the UK, these cost savings offset cost-of-goods inflation. Our share of MillerCoors' results added another \$12 million of cost saving.

Consistent with this strategy, in the third quarter we began a number of new initiatives to standardize and further streamline our Company over the next two years. As a first step, at the end of this year we will combine our UK and Ireland business with our new Central Europe organization to create a single European business called Molson Coors Europe. This move will allow us to use our go-to-market resources more effectively in the region and promote better sharing of commercial best practices and marketing expertise.

With a larger European footprint, we'll be able to negotiate better terms with suppliers, improve processes, and integrate systems to increase efficiencies. We will continue to manage the export and license business in Europe, including Staropramen export, through Molson Coors International.

Along with this restructuring, we are making a few leadership changes. First, I've named Mark Hunter as CEO of our combined Europe business, effective January 1. Since taking on the leadership of Molson Coors Central Europe earlier this year, Mark has gained deep insight into the business and earned the trust and confidence of the new team. It's a major advantage to us that Mark's bringing so much experience with these markets to his new expanded role.

Next, Dave Perkins plans to retire at the end of January. Dave has spent more than 30 years in the beer business and has led operations around the globe from Asia to Europe to Mexico and beyond. It is fitting that he retires from the top job in Canada after spending so many years successfully building the Molson brands.

Finally, I have appointed Stewart Glendinning to replace Dave as CEO in Canada upon Dave's retirement. Stewart's experience includes a broad range of executive leadership positions, including Global Chief Financial Officer and CEO, UK and Ireland, and as such, he is perfectly qualified to lead the Canada business.



With that as an overview, I'll turn it over to Gavin to give third-quarter financial highlights and a perspective on the fourth quarter. Gavin?

Gavin Hattersley - *Molson Coors Brewing Company - Global CFO, Molson Coors*

Thank you, Peter, and hello, everybody. In third-quarter financial highlights, Molson Coors' third-quarter underlying earnings increased 17.2% to \$248.9 million, while underlying earnings per share increased 20.2% to \$1.37 per share. The acquisition of Central Europe drove the increase in underlying EPS, along with the performance of MillerCoors and lower shares outstanding, following our repurchases in the second half of last year.

Earnings accretion from Central Europe is made up of \$82.6 million of underlying pretax income in the quarter, including the export business that is now part of our International group, and partially offset by \$22.4 million of acquisition-related interest expense in corporate.

Worldwide beer volume for Molson Coors increased nearly 31% due to the addition of Central Europe results. On a pro forma basis, including Central Europe in 2011, worldwide volume decreased 3% for the quarter, driven by lower volume in the UK, United States, Canada, and Central Europe, and partially offset by growth in International.

Regionally, MillerCoors contributed a 16% increase in underlying profit, driven by continued strong pricing, favorable brand mix and cost reductions. In Canada, positive pricing and cost reductions were more than offset by the negative impact of lower volume, a mix shift towards higher-cost products and packages, increased pension costs, and foreign currency movements. The UK had a very challenging quarter due to lower volumes, higher input inflation [affecting] the prior-year reduction in employee incentive expenses, partially offset by cost reductions.

Now, a note about how we are presenting our results for our new Central Europe business and Molson Coors International. In order to provide the most useful information, we will discuss Central Europe results this year in comparison to pro forma results for the comparable prior-year period.

As Peter mentioned, beginning this quarter, our International group is managing the export and license business for our Central Europe brands. The discussion of our consolidated financials and our Canada, UK, and corporate results will be on the same basis as before the Central Europe acquisition. As we have in previous quarters, I will provide an overview of our results with MillerCoors presented as if it were proportionately consolidated. This is a non-GAAP approach, but we believe it provides a useful view of some key performance metrics for our business.

On this basis, total Company net sales increased 14.2% in the third quarter, driven by the addition of the Central Europe business, along with growth in the US and International. Net sales per hectoliter decreased 11.8% in the quarter due to the addition of Central Europe's sales and lower net sales per hectoliter, which more than offset solid pricing in the US, Central Europe, and Canada. Cost of goods sold per hectoliter decreased 13.2% due to the addition of Central Europe, which has a lower cost structure than our other segments.

Total Company gross margin was 41.4%, 100 basis points higher than a year ago, primarily due to the strong economies of scale and margin structure of Central Europe coupled with the margin and expansion of [140] basis points in the US. Marketing, general, and administrative expenses increased 12% due to the addition of Central Europe results. Underlying operating margin was 17.3%, up 150 basis points from a year ago, due to the addition of Central Europe operating income this year and margin growth in the US.

Please see the earnings release we distributed earlier this morning for a detailed review of our business unit financial results in the quarter, including for Central Europe on a comparable pro forma basis.

It is important to note that our third-quarter underlying results exclude some special and other non-core gains, losses, and expenses that net to a \$62.4 million pretax charge. These adjustments to our US GAAP results primarily relate to Central Europe acquisition financing and integration and the impairment of our China joint venture, and they are described in detail in this morning's earnings release.

Underlying free cash flow for the first three quarters of this year totaled \$742 million, nearly reaching our goal of \$750 million, plus or minus 10%, for 2012. This \$278 million increase over last year was primarily driven by an increase in operating cash flow due to the addition of Central Europe and year-over-year changes in the timing of working capital.



Our year-to-date cash generation was made up of the following -- \$840 million of operating cash flow, which includes \$437 million from MillerCoors, plus \$148 million of net add-backs for Central Europe acquisition-related costs along with purchases and sales of businesses and other assets. Investing cash outflows were \$143 million of capital spending and \$103 million of cash invested in MillerCoors. Although we nearly achieved our full-year free cash flow goal in the third quarter, it is important to remember that timing of working capital can have a large effect on quarterly cash generation, and our goal of \$750 million plus or minus 10% is unchanged.

Total debt at the end of the third quarter was \$4.7 billion, \$200 million lower than at the beginning of the quarter, and cash and cash equivalents totaled \$586 million, resulting in net debt of \$4.1 billion, approximately \$300 million lower than three months earlier.

Looking forward, we are updating our guidance in a few areas. We expect our 2012 MG&A expense in corporate to be approximately \$135 million, with about \$40 million of this representing acquisition-related fees and expenses that we exclude from our underlying results. After lowering our 2012 effective tax rate guidance in September to a range of 15% to 19%, we're now also lowering our long-term tax rate guidance to a range of 20% to 24%. This 2 percentage point reduction in the range is principally due to the Central Europe acquisition.

As far as our cost outlook is concerned, in Canada for 2012 we continued to expect our all-in cost of goods sold to increase at the high single-digit rate per hectoliter in local currency due to higher pension costs, mix shifts towards higher-cost brands and packages, and the absence of the NAB contract volume in the first half of last year. In the United States, we continue to expect MillerCoors cost of goods sold per hectoliter to increase at a low single-digit rate for the full-year 2012.

In Central Europe, we now anticipate a mid single-digit increase in pro forma cost of goods sold per hectoliter this year in local currency, a change driven by increases in both brewing and packaging material costs. In the UK, we still expect our full-year cost of goods sold per hectoliter to grow at a high single-digit rate in local currency, primarily due to input inflation, sales mix, pension costs, and expenses related to the UK brewery improvements program. Our International business anticipated cost of goods sold per hectoliter to decrease at a low single-digit rate for the full year, due to the addition of the Central Europe export business, along with geographic mix changes.

In other outlook, at current rates, we do not expect foreign exchange to have a significant impact on consolidated fourth-quarter financial results. Nonetheless, as Peter mentioned, we expect the fourth quarter to be the most challenging overall this year with difficult profit and volume comparisons in Canada and the UK, along with increased input costs in Central Europe and significantly higher marketing and business transformation costs in the United States.

At this point, I'll turn it back over to Peter for regional outlook, wrap-up, and the Q&A. Peter?

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Thanks, Gavin. In Canada, we launched Rickard's Cardigan and Oakhouse, our first seasonal brands in the Rickard's family. We continue to realize strong pricing gains, but remain focused on managing the right balance of price and volume. Our recent fourth-quarter volume trends reflect continued industry weakness, as well as the impact of the National Hockey League lockout, which has limited our opportunity to activate Molson Canadian and Coors Light at retail.

Also, in the fourth quarter, we are cycling the 53rd week in our fiscal 2011, which last year provided approximately \$12 million of additional pretax income in Canada. We are also cycling approximately \$10 million of adjustments last year that we do not expect to repeat this year. Finally, we anticipate about \$5 million of additional pension and other retirement expenses in the fourth quarter, which is consistent with each of the first three quarters this year.

In the US, we expect fourth-quarter results to be affected significantly by incremental spending for marketing and business transformation, as well as the impact of a planned reduction in distributor inventories by year-end. Specifically, we expect to see high single-digit increase in MillerCoors marketing, general, and administrative costs driven by brand investments in the range of \$20 million higher than last year, along with a substantial increase in business transformation spending, which is designed to transform the way the US team works to improving core capabilities, simplifying business processes, and building information systems.



On a year-to-date basis, US sales to wholesalers have significantly outpaced sales to retailers, resulting in higher distributor inventory levels at the end of September versus prior year. However, given MillerCoors' plan to ship to consumption for the full year, we expect distributor inventory levels to revert to 2011 levels by year's end.

In Central Europe, our third-quarter results were impacted by weak economic conditions. However, we grew share in the majority of our markets in the region. Our innovations continued to take share and support margin growth. We plan to accelerate further introductions to additional countries in the near term.

Because the business brought forward its investments behind innovations and marketing efforts ahead of the peak season this year, our results in the third quarter benefited from lower marketing and innovation spending versus a year ago. We expect this benefit to continue in the fourth quarter. Additionally, following expansion last year, Staropramen is growing strongly across all of the Central Europe markets in which we operate.

In the UK, we are capitalizing on the success of Carling Zest Citrus by introducing a winter version with a hint of spiced orange. Also, our brewery network investment continues with building work started in preparation for the arrival of a new state-of-the-art bottling line in Burton in the first quarter of 2013. In the fourth quarter, we face particularly challenging STR and underlying profit comparisons, which increased 16% and 29%, respectively, in the UK a year ago.

Our International business continues to drive top-line growth for our key global brands and the addition of Staropramen to our portfolio enhances our growth opportunities. We now expect the 2012 investment in our International business to be moderately lower than last year on an underlying basis, including the benefit of six months of Central Europe export earnings.

Finally, here are the most recent volume trends for each of our businesses early in the fourth quarter. In Canada, our sales to retail in the first four weeks of the quarter declined at a high single-digit rate versus 2011, primarily related to continued industry declines along with the NHL lockout. In the US, for the four weeks ending October 27, STRs were flat versus a year ago. In Central Europe, our sales volume decreased at a low single-digit rate in the first month of the quarter.

In the first four weeks of the quarter our UK STRs decreased at a low double-digit rate, driven by challenging comparisons in the off-premise channel. And in the first four weeks our International STRs decreased at a double-digit rate, excluding the addition of Central Europe export, driven by the year-on-year timing differences and the de-consolidation of the China joint venture.

As always, please keep in mind that these numbers represent only a portion of the current quarter and trends could change in the weeks ahead.

To summarize our discussion today, in the first full quarter of owning our Central Europe business the addition of these results, net of financing costs, drove strong earnings growth. We continue to expect that the acquisition will strengthen our Company, enhance our growth profile, and increase shareholder value.

In the third quarter, we grew total Company underlying free cash flow, operating profit, after-tax income, and earnings per share, all at double-digit rates. Looking forward, we anticipate significant volume and earnings headwinds in the fourth quarter.

Recognizing these challenges in our businesses, we've begun a number of new initiatives in the third quarter to standardize and further streamline our Company over the next two years. Combining the UK and Ireland business with our new Central Europe organization to create a single Molson Coors Europe business is the start of that process. All of these steps are designed to improve efficiency and effectiveness across our Company and drive profit, cash, and value for our shareholders.

Before we start the Q and A portion of the call a quick comment. Our prepared remarks will be on our website for your reference within a couple of hours this afternoon. Also, at 2.00 PM Eastern time today Dave Dunnewald will host a follow-up conference call, which is an opportunity for you to ask additional questions regarding our quarterly results. That call will also be available for you to hear via webcast on our website.

So, at this point, Chrissy, we would like to open it up for questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Judy Hong from Goldman Sachs. Your line is open.

Judy Hong - Goldman Sachs - Analyst

The first question is just really trying to understand better what's going on in Canada, both from an industry perspective and from your market share perspective. So just some color around the industry-wide softness that you're seeing. And then your volume softness; how much of that is industry-wide driven as opposed to maybe competitive environment getting worse, especially from some of the value brands?

Peter Swinburn - Molson Coors Brewing Company - President, CEO

Yes, okay, Judy. Thanks. I'll pass that on to Dave. There are a number of moving parts and so I think it's better if Dave gives you the detail on that. Dave?

Dave Dunnewald - Molson Coors Brewing Company - VP, IR

(inaudible) and in Molson volume for quarter three, nonetheless we did see underlying softness in the industry. Hand-in-hand with that, we saw a pretty competitive pricing environment, so more beer being sold on promotion across the country.

And the other thing that we saw that was very significant for us was a strong shift to cans that has been unfolding through the year. Just to give you a sense of the significance, in a market like Quebec where it was most pronounced, we saw cans increase about 30%. So very significant shift.

Within that context we maintained positive pricing. I think you've seen in our NSR per hect numbers that we've led the industry there. So, pleased on the pricing front.

We lost about a share point. We estimate a half of that share loss is related to can shortages that we ran through the quarter, so we had difficulty meeting that unexpectedly large shift to cans. We're at very high capacity utilization; our first season of ramping up our major new can line in Montreal and so we did run reasonably extensive shortages of product. So that would account for about a half the share loss, as I said.

The remainder of the share loss is really what I've talked about in prior quarters. You've seen it in recent quarters and it's the segment shifting that we continue to experience. So we're very well developed in the mainstream. We are less well developed in above premium, but we're growing our share there and that's really a focus for us. And then we're quite underdeveloped in value where we see growth.

And through Keystone and the use of regional brands we continue to attempt to strengthen our position there. And so, the segment shifting is really the key factor in the underlying longer term trend that you're seeing, and in this quarter, as I say, amplified by a can shortage.

Just to give you a sense on the regional front, we did moderate our share decline in the West. We were more price competitive in the quarter and we saw a response to that that gives us confidence as we continue to play with the price and volume balance that we do have responsiveness in our portfolio. Unfortunately, the gains we made in the West were more than offset by lost sales in the East with the can shortage. Does that help?



Judy Hong - *Goldman Sachs - Analyst*

And Dave, is -- yes, that's helpful. The can shortage situation is that pretty much done and now you're back into meeting demands on the can side?

Dave Dunnewald - *Molson Coors Brewing Company - VP, IR*

Yes, that is behind us. As we look to next year, with the can line in year two and with advanced planning, we're confident in our ability to meet what seems to be a pretty strong trend in the market.

As far as October is concerned, just to give you a sense there and what we're seeing, there's probably two key factors. We are cycling the strongest quarter from an industry perspective that we saw last year. So the industry, even taking out the 53rd week effect, was up 1.8%. So it was a strong result and that was behind very good weather that we're not benefiting from this year.

And the NHL lock-out is a major -- NHL is a major property for us. Hockey generates a lot of beer occasions in Canada, whether it's in bars, in home, or in the venues. And it's a really important part of how we activate behind our power brands, Coors Light and Canadian. So we're obviously working to replace the hockey programming, but hockey would be the premier property. And on top, we lose the direct volume in the hockey venues that are ours.

Judy Hong - *Goldman Sachs - Analyst*

Okay. Then just secondly, in Central Europe just again sort of the demand falloff that you saw in September, because you talked about July being up high single-digits so clearly the quarter, the late quarter trends were much weaker than we saw earlier in the quarter. So can you just give us some sense of what's happening, both from a macro perspective as well as from a competitive perspective?

And then, sort of in terms of what's happening with the macro being tougher in those markets, how are you thinking about the ability to maybe even extract more cost savings, particularly as you integrate the UK business into Central Europe and have a wholly-integrated European division?

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

So, Judy, I'll take the second part of that question first, and then let Mark address the first part. For the moment we put \$50 million out as synergy number for Central Europe and that's the number we're sticking to.

As I alluded to in the script, we are starting with the reorganization in Central Europe and the UK, but obviously, we need to make more cost moves within the business. And that will be something that we can talk about at a later date. So, Mark, do you want to talk specifically about consumer demand and market share in Central Europe?

Mark Hunter - *Molson Coors Brewing Company - President & CEO - Molson Coors Central Europe*

Sure. Hi, Judy. To your very specifics, if I start at a macro level, I think what we saw as we went through the third quarter, really through the second half of August and in September, a real slowdown in consumer demand. Clearly, we're currently investigating what we think is driving that.

Probably at the highest level, what we are seeing is the GDP forecasts for virtually all of the markets that we operate in turning in a negative direction versus the 2011 numbers. And certainly in Serbia, Croatia, Hungary, and Czech we expect GDP to be actually negative by the end of 2012 on a full-year basis. So there's clearly a macro sluggishness from a demand perspective and that manifested itself in industry volumes.

Now I'll just take a couple of markets to give you an example. So to the end of August the Hungarian market was up about 2.5 points in volume. In September it was down 5 points. The Czech market was up just under a couple of points at the end of August and in September it was down 7.5 points. Clearly in September consumers tightened their belt.



Now clearly to your second question, what does that mean competitively? Well, those pressures are felt by us and all of our competitors. The good news is that in five of our seven markets we actually grew share and in our biggest markets we continued to grow our business, which was good news, and grow our pricing. And obviously that manifested itself in a double-digit increase in our earnings, which is very, very positive.

I think the one thing just to call out and flag to you is probably the Romanian market. So if you look at industry volume in Central Europe through the third quarter, our headline label looks reasonably -- volume picks up about 4%. But 90% of that growth came in Romania and it came in Romania in a very, very low-margin segment, the value segment.

I think one of our competitors had already flagged the fact that they saw very, very high growth, but it would actually be margin-dilutive on a Pan-European basis. We chose not to compete there, so we actually gave up some share in Romania as one of the two markets where we gave up some share.

If you strip out Romania, industry was up by less than 1%. If you strip out Romania in our business, our volume was actually up by about 3%. Excluding the Romanian market where there is that volatility in the value segment, I feel very, very pleased with our performance. As I say, strong earnings growth and share growth in five of the seven markets.

And we have continued to manage our costs very effectively, both from an investment perspective and a G&A perspective. So I think the business is feeling very solid and competitively performing very strongly.

Judy Hong - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Our next question comes from the line of Dara Mohsenian from Morgan Stanley. Your line is open.

Dara Mohsenian - *Morgan Stanley - Analyst*

So, Peter, given some of the volume struggles around the world, really across your geographies, as well as market share issues and the difficult macro environment you cited, do you think you need to boost marketing spending going forward to drive a volume pickup in 2013, and also, how do you protect profit in that difficult environment? I'd love some clarity just on prioritizing volume growth versus profit in your key markets at this point, given the environment.

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Sure. Thanks very much. Well, as we flagged in the earnings, we actually are increasing our G&A marketing spend in the US by a figure of around about \$20 million. So the short answer is, yes, we're taking some action.

We did increase our marketing spend this year, which we flagged at the beginning of the year. In terms of how we're addressing it, I think Dave alluded to the fact that, and I think Tom did in the US earnings call this morning, that most of our portfolios are skewed towards mainstream premium and we suffer from not having enough exposure to a premium.

What you will see is in all of our innovation activity that we have undertaken over the last couple of years and going forward, we're very much skewed towards premiumizing the portfolio. So we're looking to mix as being a big driver for us over a two- to three-year period.



So if you look at -- again, US was talked about this morning. But if you looked at what we did in the UK this year with Carling Zest, that was very much a premium play, the Coors Light Iced T was a premium play, aluminum pints are selling at an index of \$1.10 to \$1.20 was a premium play, and so on. And so really that's the way that we're dealing with it.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. And when do you think you'll give us more clarity on the potential level of cost savings from the combination of the UK and Ireland business with Central Europe? And also, just can you give us a sense of the overall cost-cutting potential or productivity potential at your company as we look going forward versus recent trend, and if at some point, you will outline new longer-term cost-savings goals across the Company?

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Yes. We'll be in a position to give you much more detail, I would suspect, when we have our analyst call next year in New York, so we can be much more definitive then. In terms of the overall approach, I mean, we've consistently said that we see cost saving as something that's an ongoing task within the business. We believe there is more cost to take out of the business and we're actively seeking to do that at the moment.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. Thanks.

Operator

Our next question comes from the line of Mark Swartzberg from Stifel Nicolaus. Your line is open.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Gavin, on the cost of sales per hectoliter I wonder if you could speak directionally as you look beyond the fourth quarter, whether it's fair to characterize the whole of Molson Coors as being in a less inflationary environment next year than you've been this year, and perhaps even remark how a given region might compare to that overall performance?

Gavin Hattersley - *Molson Coors Brewing Company - Global CFO, Molson Coors*

Sorry, I can't help you at this point in time. What we normally do is we give our cost of goods sold guidance for the year during our fourth-quarter earnings call. So we'll be doing that for you in February of next year.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay, fair enough. And then probing a little bit more, Gavin or Peter or Mark, on this consolidation of Europe. Can you walk us through a little bit about how your thinking has unfolded since you announced the StarBev transaction? How much the performance in September and October has motivated this decision to consolidate, and how much of this was other factors and part of the game plan when you announced the transaction?



Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Sure, Mark. I'll take that. Short answer, no, it was not motivated or driven by anything that happened in September/October. We always planned to look at this and probably do it as pretty standard for most businesses to have a European platform, which the honest truth is we expected the integration to be slower and take longer than we expected.

Really, this is a good news story, because the integration has gone much more smoothly and has bedded in much more quickly than we expected. We just feel we're in a position to be able to make this call earlier than we would have otherwise done. Simple as that.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay. Thank you, guys.

Operator

Your next question comes from the line of Bryan Spillane from Bank of America. Your line is open.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

I've got two questions. One, just in Central Europe, on the cost of goods per hectoliter or the input costs, is there anything different about that market that would cause -- I guess what I'm trying to drive at is whether or not there's some difference in the way that you buy raw materials there, where you're not hedged out as far, where it would have -- where you would have seen an increase relative to what you were thinking back in July, or was it just simply the type of raw materials or the type of costs that increased are the type that you can't hedge?

Just trying to understand whether there's something different about that market in terms of the way you buy raw materials than your other markets.

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Sure, I understand. Bryan, I think the best thing is I'll let Mark talk to the specific of what's driven the difference between our Q2 guidance and Q3 guidance. It's very simple and straightforward. I'll let Mark do that and then maybe Gavin might want to come back in in terms of hedging and what have you. Mark?

Mark Hunter - *Molson Coors Brewing Company - President & CEO - Molson Coors Central Europe*

Yes. So in headwind terms, I wouldn't point to anything that's materially different between how we buy in Central Europe versus other parts of our market. Relative to the guidance we gave in Q2, the only thing that is different has been really the issue with grain harvests across Europe, particularly in Romania and Serbia. And that's having an impact on costs as we move into Q4. Everything else is very much in line with the guidance that we offered.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay.



Gavin Hattersley - *Molson Coors Brewing Company - Global CFO, Molson Coors*

From a hedging point of view, Bryan, as you know, we've got a very comprehensive hedging program in the US and we've got a solid comprehensive hedging program in other businesses. And our supply chain group is working to get Central Europe embedded in those programs. I would say they're not quite at the same level from a hedging perspective as the rest of our businesses are and we're getting there quite quickly.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. Thank you. Then, Peter, just as a follow-up to Dara's question earlier, just go back to the investor day in March. The message that we took away, one of the messages we took away was that trying to rebalance -- you were trying to rebalance the model, so that we get to a point where we're seeing more of the profit growth driven by sales growth, as opposed to being overly dependent on cost saves. And that's sort of the motivation to increase the new product innovation, part of the motivation to get into the StarBev markets.

Clearly, right now, we're not seeing the top line growth for a number of reasons. But just, as I listen to a new or some incremental cost savings potentially over the next two years, just want to make sure that I'm clear that what's happening isn't that we're sort of losing faith in the ability to drive the top line, and thus, are going to focus more on cost savings. Or as much as this was just something you weren't ready to talk about in March and it's still an imperative to drive the top line to sustainably drive the bottom line? I hope that's clear.

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

It's very clear, Bryan, and it's a great point. And you've got it spot on. In no way are we abandoning the top line. I mean, the business really has to show top line growth.

It's a journey, though. So as I said earlier, a lot of what we're trying to do is to get the premium part of our overall portfolio moving in the right direction. We have undoubtedly suffered from a lack of consumer demand in a number of our markets in this quarter, but the cost saving piece is just the other part of the triangle.

We have consistently said that we will continue to look at cost savings and continue to drive down costs in the business. So really it's not an either/or, it's very much doing both of them.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions)

And your next question comes from the line of Brett Cooper from Consumer Edge Research. Your line is open.

Brett Cooper - *Consumer Edge Research - Analyst*

A quick question on Canada. With pricing for you up 3%, I think your competitor was up 1% in the quarter. Volumes were down. If we back out Canada, we're down 3% in the quarter. So how sustainable is the better pricing that we're seeing from others in the market and how should we think about that going forward?



And then a second question is on Coors Light Iced T, obviously you guys made a big deal about that at the analyst day. Can you give us an update? I don't know what it's contributing to your business in terms of growth or consumer demand on that side. Thanks.

Dave Dunnewald - *Molson Coors Brewing Company - VP, IR*

Yes, sure. On the pricing front, we have outpaced the competition. There's no question. It wouldn't have made sense to do anything differently, given the shortages we were running. Our net pricing would have been about 2% and then the balance was through mix. We do have a meaningful premiumization effect in our business and I think that is sustainable. Coors Light is a really good example of that. Coors Light has come out at the end of the summer in line with our expectations. It was profitable in year one for us, despite a fairly aggressive investment behind it. And it appears to have had a halo effect on the mother brand, because Coors Light itself has performed better than it has in recent years, even. So we're quite happy with what we've seen overall there and I think it is indicative of what we're able to do through premiumization.

Look, how that plays out in terms of the price/volume mix and the competitive dynamic we watch that from day to day, but what's happened in this quarter was the right thing to have happen. Does that answer both your questions adequately?

Brett Cooper - *Consumer Edge Research - Analyst*

It does. If I could just have one follow-up. So without the NHL -- I'm just trying to think about how we modeled this in the fourth quarter. There is certainly going to clearly be a volume impact on that. Is there less marketing dollars going in because of the loss of the ability to activate against NHL?

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

I wouldn't give guidance on what we're doing in Q4 on marketing spend. What I would say is we are looking for and are working behind substitute programming to ensure that we remain competitive in the quarter. But as I said earlier, there is no doubt that this property is quite unique in its impact, both on industry volume and on our share. And so to think that we can actually replace it in the short term I think is unrealistic.

Brett Cooper - *Consumer Edge Research - Analyst*

Okay, perfect. Thank you.

Operator

Your next question -- sorry, that person got out of queue. There are no further questions in queue at this time. I'll turn the call back over to the presenters.

Peter Swinburn - *Molson Coors Brewing Company - President, CEO*

Thank you, Chrissy. Thank you to everybody for joining us today and for your interest in the business. We look forward to speaking to you again at the fourth-quarter earnings call. Thanks very much.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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