

FINAL TRANSCRIPT

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TAP.A - Q3 2011 Molson Coors Brewing Company Earnings Conference Call

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CORPORATE PARTICIPANTS

Peter Swinburn

Molson Coors Brewing Company - President and CEO, Coors Brewing Company

Stewart Glendinning

Molson Coors Brewing Company - Global CFO

Mark Hunter

Molson Coors Brewing Company - President, CEO Molson Coors UK

Dave Perkins

Molson Coors Brewing Company - President, CEO Molson Coors Canada

Tom Long

Molson Coors Brewing Company - CEO MillerCoors

CONFERENCE CALL PARTICIPANTS

Carlos Laboy

Credit Suisse - Analyst

Judy Hong

Goldman Sachs - Analyst

Jeff Farmer

Jefferies & Co. - Analyst

John Faucher

JPMorgan - Analyst

Mark Swartzberg

Stifel Nicolaus - Analyst

James Watson

HSBC - Analyst

Karen Lamark

Federated Investors - Analyst

PRESENTATION

Operator

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 the 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 in US dollars.

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



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

Thank you, Melissa. Hello and welcome, everybody, to the Molson Coors earnings call.

With me on the call this morning are Stewart Glendinning, Molson Coors CFO; Dave Perkins, CEO of Molson Coors Canada; Tom Long, CEO of MillerCoors; Mark Hunter, CEO of Molson Coors UK; Kandy Anand, President of Molson Coors International; Sam Walker, Molson Coors Chief Legal Officer; Dave Dunnewald, Molson Coors VP of Investor Relations; and I also want to welcome Zahir Ibrahim as our new Controller. Zahir replaces Bill Waters, who is now VP of Corporate Strategy for Molson Coors. On the earnings call today Stewart and I will take you through highlights of our third quarter 2011 results for Molson Coors Brewing Company, along with some perspective on the fourth quarter.

In the third quarter, our Company underlying after-tax earnings decreased 11%. We continue to face high unemployment among core beer consumers, lower volume, and significant commodity inflation. What's new in the third quarter is additional MG&A expense in the US, and incremental weakness in the UK market. While the MillerCoors MG&A increase was anticipated, we did not expect the degree of softness in the UK market. Despite these challenges, in the third quarter we continue to focus on our 3 growth strategies of maximizing profitable growth opportunities in our core markets, accelerating our push into new and emerging markets to grow our brands globally, and looking for M&A opportunities that generate shareholder value.

In our core markets we continue to focus on brands and innovation. In Canada we built on the rollout of Molson Canadian 67 Sublime, Miller Chill Lemon, and Rickard's Blonde. In the US, Blue Moon and Leinenkugel again led the craft segment with double-digit growth, while Coors Light grew both volume and market share. In the UK, we updated the Carling branding, and introduced two new brands, Carling Chrome and Animee, a beer designed to appeal to women; along with innovative and aluminium bottles for Carling, Coors Light, and Caffrey's. Along with brand and innovation results, during the quarter we delivered \$29 million in cost reductions between the RFG2 savings and our 42% share of MillerCoors cost reductions.

Our International group continued to push into priority new and emerging markets, with investments behind Coors Light, Carling, Cobra, and other brands. International business volume was 50% higher in the third quarter, driven by the addition of the Si'hai brands in China and the Modelo brands in Japan, along with growth of Carling in Europe and Coors Light in Latin America and China. The new Cobra India joint venture is off to a good start, as is the introduction of Carling in the Ukraine. Regarding the China JV, as we mentioned in the last quarter, progress has been slower than planned as we work through integration issues.

During the past 4 years, we have used our cash for growth opportunities and to strengthen our balance sheet and to double our dividends per share. In the third quarter we further strengthened our balance sheet by settling one-fourth of our cross-currency swaps for approximately \$100 million, and paid down the outstanding Ontario beer store debt with \$94 million in cash. In addition, following on the announcement of our \$1.2 billion stock repurchase plan in August, we viewed the recent market weakness as an opportunity for us to get a fast start on the buyback program. Over the past quarter we repurchased approximately 6.3 million shares for \$271 million. Stewart will provide more details in a few minutes.

So with that as an update of our strategic growth, follows on our new share repurchase program, I will turn it over to Stewart to give third quarter financial highlights. Stewart, over to you.

Stewart Glendinning - *Molson Coors Brewing Company - Global CFO*

Thanks, Peter. Hello, everyone.

In the third quarter financial highlights [there will be] a volume for Molson Coors declined 0.8%, driven by continued volume weakness in the US and UK. Nonetheless, total Company net sales increased 9.1% due to foreign currency movements, international growth, and the addition of contract brewing sales and new brands this year. Net sales per hectoliter increased 8.5% in the quarter. On the bottom line, underlying after-tax income of \$212.4 million, or \$1.14 per diluted share, was 11.2%



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lower than a year ago, driven by lower sales volumes and higher commodity inflation and other costs, partially offset by favorable foreign currency movements and the results of our cost savings initiatives. It is important to note that our third quarter underlying earnings excludes some special and other non-core gains, losses and expenses that net to a \$26.8 million pretax charge. These adjustments to our US GAAP results are described in detail in the earnings release we distributed this morning.

In segment performance highlights, starting with Canada, underlying pretax income increased 0.2% to \$162.3 million. Increased net pricing, MG&A expense reductions, and favorable foreign currency were offset by cost inflation and asset value and cost adjustments. These results include an \$8 million benefit from a 7% year-over-year increase in the Canadian dollar versus the US dollar. Sales to retail, or STRs, declined 0.6% in the third quarter, largely due to increased competitive price discounting in key regions. Our market share declined approximately 0.5 a share point from a year ago, which was driven by a challenging comparison versus the third quarter last year when we grew market share by almost a full point.

Net sales per hectoliter increased nearly 4% in local currency, with one-third of this driven by continued positive pricing and the remainder due to the addition of North American breweries, or NAB, contract brewing sales this year. Cost of goods sold per hectoliter increased 16% in local currency, driven by 3 roughly equal factors -- 1, input inflation; 2, the cost of brewing beer under our NAB contract; and 3, asset value adjustments this year in cycling 1-time cost reductions last year. Local currency, marketing, general and administrative expense decreased, largely due to lower overhead expenses in the quarter.

Moving to our US segment, underlying pretax income decreased 16.3% to \$120.6 million in the third quarter, driven by lower volume and higher costs, which more than offset positive pricing, favorable brand mix, and cost savings. Domestic STRs decreased 2% in the quarter, while sales to wholesalers declined 4.7%, with the variance to STRs driven by the timing of shipments last year. Domestic net revenue per hectoliter for MillerCoors, which excludes contract brewing and Company-owned distributed sales, increased 1.8% in the quarter. Meanwhile, cost of goods sold per hectoliter increased 3.2%, as higher freight, fuel, packaging, fixed cost, deleverage, and an out-of-period depreciation charge of \$5.2 million were partially offset by cost savings. MG&A expenses increased 3.2% in the third quarter, primarily due to higher information systems and marketing expense, along with an out-of-period depreciation charge of \$7.3 million.

In our UK business, third quarter underlying pretax income decreased 25.3% to \$27.4 million, due to overall lower volumes, lower net pricing, and higher marketing investments and operation costs. The British pound appreciated 4% versus the US dollar, which improved pretax earnings by approximately \$1 million. STRs decreased 2.9% due to a weak UK market impacted by the economic climate, along with the temporary off-premise volume reduction in our business.

Overall industry volumes increased 1.6% from a year ago. Our business grew share and net price in the on-premise channel, but share and price declined in the off-premise, as we transitioned through some channel and customer dynamics. Owned brand net sales per hectoliter increased 5% in local currency, with 6% driven by positive sales mix in the quarter, especially the addition of the Modelo brands. Net pricing was 1% lower than last year, impacted by increasingly competitive market dynamics and adverse customer mix in the off-premise. Total cost of goods sold per hectoliter increased 10% in local currency, primarily due to the addition of the Modelo brands. Other factors include input inflation, fixed cost deleverage from lower volumes, and expenses related to a major information system implementation. Marketing, general and administrative expenses declined nearly 7% in local currency, due to lower employee incentive and pension expense, partially offset by higher marketing investments.

The international and corporate segment posted an underlying loss of \$58.1 million pretax in the third quarter. This \$3.5 million increase was driven by the impact of a weak US dollar on interest expense. The \$7.2 million underlying pretax loss in the international business was \$1.4 million higher than a year ago, primarily due to investments in our Ukraine, India, China, and Russia Businesses. The international business grew volume 50% in the third quarter.

Underlying free cash flow for the first 3 quarters of this year was \$464 million, which was made up of \$603 million of operating cash flow, including \$372 million from MillerCoors, plus \$17 million of proceeds from the Foster swap unwind, and asset sales of minus \$126 million of capital spending and \$30 million of cash invested in MillerCoors. This underlying free cash flow is \$207



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million lower than in the first 3 quarters of last year, primarily due to 1-time cash sources last year, and higher capital spending and the timing of working capital this year. A 2011 underlying free cash flow remains -- our goal remains \$750 million, plus or minus 10%, although we now believe that we will likely close out this challenging year in the lower half of the range. Please see our website for details regarding our adjustments to arrive at underlying free cash flow.

Regarding cash uses in the third quarter, Peter mentioned our stock buybacks, partial cross-currency swap retirement, and the Ontario beer store debt paydown. Totalling more than \$465 million, these cash uses strengthened our balance sheet and reduced our share count at an attractive price. Here are the details regarding the buyback. During the third quarter we bought back approximately [\$6.3 million] Class B common shares for \$271.1 million in cash, which is approximately 23% of the total program authorization, and roughly 3.5% of our outstanding Class B shares. As originally announced, we have been implementing this program opportunistically, with a goal of growing long-term shareholder value. We also recently added Class A common shares to the buyback authorization, and there are fewer Class A shares available for repurchase on the open market, so we plan to continue to focus primarily on the repurchases of Class B common shares.

Meanwhile, the swap and debt retirements improve our debt ratios with the rating Agency; and as always, all potential cash uses will be vetted by our disciplined process and must meet our firm criteria of providing a clear view to near-term earnings accretion and building long-term shareholder value. Looking forward, we have not changed our 2011 guidance for pension contributions or corporate interest expense. Please refer to our May earnings call for our most recent guidance regarding these metrics. We are reducing our outlook for 2011 MG&A expense in the corporate International segment to approximately \$190 million. This \$10 million reduction is driven by corporate cost reductions.

Our full-year capital spending outlook is now approximately \$250 million, and this \$20 million increase in guidance is driven half by foreign exchange movements and half by investments in our new Cobra India venture and Sharp's Brewery in the UK. Note that this capital spending guidance excludes MillerCoors. We are adjusting our outlook for the Company's 2011 effective tax rate to a range of 12% to 16%, driven by the favorable resolution of unrecognized tax positions early in the fourth quarter. This new annual guidance, which is down from the 15% to 19% we estimated on our last earnings call, implies a fourth-quarter effective tax rate in mid-single digits. Our expectation for our long-term effective tax rate remains a range of 22% to 26%.

Looking ahead, our cost outlook. In Canada, it continues to be for 2011 all-in cost of goods sold to increase at a mid single-digit rate per hectoliter in local currency, due to higher input inflation, distribution costs, and the addition of the NAB contract volume this year. In the US, we continue to expect MillerCoors cost of goods sold per hectoliter to increase at a low single-digit rate in 2011. In the UK, we now expect our full year COGS per hectoliter to grow at a high single-digit rate in local currency, driven by the addition of the Modelo brands this year. One additional factor that will affect our fourth quarter results is the extra week that we will have at the end of our fiscal 2011. This will add a week's worth of volume and operating results to our fiscal fourth quarter this year.

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

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

Thanks, Stewart.

In Canada we have now largely cycled last year's significant market share gains, which we anticipate will result in less challenging volume comparisons in the fourth quarter. Our focus remains to deliver profitable growth with an increasingly competitive environment. Our recent favorable court ruling regarding our Canada partnership with the NHL has allowed us to move ahead with activating the sponsorship, which will provide us greater access to the market, and drive relevance for our brands among a very important consumer group. We will continue to expand our above-premium business to further geographic expansion of Creemore and Granville Island brands through Six Pints, our new craft and speciality group in Canada. We would also be expanding on-premise coverage through a new prestige sales force.



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For the second consecutive year we have been recognized as one of the top 100 employers in Canada, selected as a Top 50 engage work place from "I Love Rewards"; and this year we have been ranked number 9 out of 150 companies by Randstad Canada. In the US we are committed to driving brand growth and profit by executing on our 7 major initiatives nationwide. These are focused strategies to drive distribution, floor displays, convenience store single-serve packages, Blue Moon seasonals, premium lights, and Mexican soccer, winning [summer] with premium lights and on-premise execution. On our brands we are taking a hard look at every aspect of our Miller Lite marketing, and will continue to evolve our taste in masculinity message and deliver it with an even broader communications platform. Innovations, such as our aluminum pint vortex bottle and [chased] activated glass have been received well by consumers and will continue to be a focus.

We are also increasing our advertising and focusing on our 11 Miller Lite NFL alliance teams, and we are focusing on college football and unveiling a new innovation with the Miller Lite [chase] flow can. With Coors Light, our Super Cold Activation has been well received by consumers. We are also focused on football for the remainder of the year, along with Hispanic soccer, with the launch of Coors Light [fanatsia source del phia] website, with promotional packaging and point-of-sale materials. And finally, Tenth and Blake will continue to drive craft and import growth.

The Blue Moon brands are up 24% year-to-date, and our Leinenkugel's Summer Shandy up more than 80% compared to last year. This helped us lead craft segment growth this summer. We will continue to drive momentum among Blue Moon with seasonals, such as Blue Moon Spiced Amber Ale, and the recent launch of a year-long campaign inviting consumers to help choose a new beer for the next Lunar Blue Moon.

In the UK, following the completion of our SAP system implementation this summer, the team focused on brand building and innovation activities during the third quarter. This included the rebranding of Carling to give the UK's largest beer brand new positioning, a new visual identity, and the launch of a new premium line extension called Carling Chrome. We also launched Animee, a beer with a delicious fresh taste that is available in 3 variations tailored to legal drinking age women, and we launched Carling, Coors Light, and Caffrey's in aluminum bottles. Additionally, we recently announced a multi-year redevelopment program in our UK brewing network in order to improve our bottle innovation, flexibility, and performance; and enable us to deliver on our brand and innovation agenda. These changes will also bring significant environmental benefits, including helping to reduce packaging rates, save water and improve energy efficiency.

While we are driving brands and innovation in our core markets, our International team has been selectively but significantly expanding our International brand footprint and generating momentum in some of the top global growth markets. In addition to our partnerships in Russia, Spain, and China, we have also entered into a commercial joint venture with leading [group] Obolon in Ukraine, which is Eastern Europe's second largest beer market. And finally, building on the success of our partnership in the UK, we are ramping up our new Cobra beer joint venture in India, which is the world's fastest growing beer market, and represents an exciting opportunity for us to expand our footprint in Asia. As we have mentioned previously, our International group is increasing investments in high-potential markets with the goal of becoming a significant contributor to total Company top-line and bottom-line growth in 5 years or less.

Finally, the following are the most recent volume trends for each of our Businesses early in the fourth quarter. In Canada, our sales to retail for 4 weeks ended October 22 increased at a low single-digit rate versus a year ago. For the 3 weeks ended October 22 MillerCoors STRs declined at a mid single-digit rate. In the first 4 weeks of the quarter, our UK STRs have increased at a high single-digit rate, reflecting a reversal of the off-premise channel dynamics that impacted our third-quarter volume. As always, please keep in mind that these numbers represent only a small portion of the third quarter, and trends could change in the weeks ahead.

So to summarize our discussion today, Molson Coors third quarter underlying after tax earnings decreased 11%, as we continue to face high unemployment among core beer consumers, lower volume, and significant commodity inflation. New challenges included the MillerCoors MG&A increase and the degree of market softness in the UK. Nonetheless, we continue to pursue all 3 of our growth strategies, maximizing the value of our core markets, expanding our exposure to emerging markets, and taking



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advantage of smart M&A opportunities. With these strategies, profit and cash generation and our disciplined use of cash will remain tightly focused on building long-term value for our shareholders.

Now before we start the Q&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 p.m. 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 by webcast on our website.

So, at this point, Melissa, we'd like to open it for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Carlos Laboy.

Carlos Laboy - Credit Suisse - Analyst

Peter, can you give us maybe some more insight on how you look at the trends in the UK. You've got some growth happening for the industry as a whole. The off-premise is growing and the on-premise slipping. Can you give us more granularity on that, it would be helpful, thank you.

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

Yes, sure. I will sort of give a summary, Carlos, and I will pass it over to Mark, who can go into more detail for you. I think overall what we've seen in the UK over the last 2 to 3 to 4 years is a marketplace that is, as you say, has continued to move from the on-premise to the off-premise with the off-premise now being the majority of the market. Obviously, you know it is very consolidated market at the retail and both in the on and the off-premise, but equally we are seeing consolidation around the brand -- the brands as well, which is obviously positive for us. This particular issue in the summer was really we just did not see a rebound in the market that we expected to see following the relatively easy comparisons with last year during the World Cup. So really that's the backdrop to it, but I will let Mark go into more detail.

Mark Hunter - Molson Coors Brewing Company - President, CEO Molson Coors UK

Thanks, Peter. Hi, Carlos. I think to your question I'd take this in 2 parts. There's a long-term trend where we have seen beer volumes in the UK down, circa just under 20% over the last 5 years. So, beer, which is still the biggest category, is under a lot of pressure from other long alcoholic drinks and wine in particular. And we're responding to that through Animee, which Peter mentioned, and looking for opportunities to really expand the relevance of the beer category. That's more of a medium to long term ambition and aspiration and one which I think is wholly appropriate. If you look at what happened over the summer, to Peter's point, we've seen the market down about 10% last year in the quarter. This year it only rebounded by about 1.5%. I think the good news is as a business we've only seen about 19 quarters of pricing growth. We've seen our share stable since Q2 of 2010.

We grew our share on-premise through the third quarter and have actually grown our on-premise shares through Q1, Q2 and Q3 of this year. We found off-premise more challenging through the third quarter. A good performance in multiple grocers. A more challenging performance in the convenience channel and some of that was to do with phasing in relation to some customer discussions. The positive sign is, as we've gone into the fourth quarter we've seen our STRs up high single-digit growth. So some



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of that phasing challenges started to come back, but I think there are quite-- there are 2 quite distinct challenges here. One is the short-term piece, which I have talked to, which I think we'll bounce back from. There is a longer-term challenge to the beer category and one which yourself and the whole of the industry is dealing with or attempting to deal with.

Carlos Laboy - *Credit Suisse - Analyst*

Thank you very much.

Operator

Judy Hong.

Judy Hong - *Goldman Sachs - Analyst*

Thanks. Hi, everyone. I guess first just in terms of Canada, maybe you could talk a little bit more about your share performance in the context of the competitive backdrop. You talked about the challenging year-over-year comparison, but sequentially your share also declined by about more than 150 basis points or so, so just wanted to get your perspective on what happened with the competitive backdrop and then your share performance in the context.

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

Thanks, Judy, it is Dave. Just on the sequential share. In Q3 it was more or less flat with Q2 and Q1. Just want to correct that first.

Judy Hong - *Goldman Sachs - Analyst*

The absolute share level, Dave?

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

Yes, the Absolute share level in Q3 would be within a tenth of a point of what we've seen in the first half of the year.

Judy Hong - *Goldman Sachs - Analyst*

Okay, maybe I just have a different number. Okay.

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

Okay, so just with that corrected, let me give you a perspective then on share. We are not where we want to be yet. We did go down a half a share point in the quarter. That having been said, as Stewart referenced, we were cycling almost a share point increase prior year. What I do like in what I see about our market share is first of all, the fact that we have remained essentially stable on a sequential basis while growing our NSR per hectoliter. We've also outpaced the market with Canadian trademark Coors Light, Rickard's Keystone and our craft friends. So, we've seen a number of our strategic brands actually growing share in the quarter, which feels very good to me. Innovation has delivered about 3 share points again, so that will be consistent with recent quarters and I think is a positive sign. Where we've lagged the market is really in the imports and unsupported brands.



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Unsupported brands, not concerned about that, and on the import front, we are working to put plans in place for the future to strengthen the performance of those brands. But overall, there's a lot to like, I think, in the market share performance in the quarter. You also touched on sort of the competitive context and I'd just say the market does remain very, very competitive right across the country, as I noted last quarter. I think in terms of changes that we are seeing, Judy, in the West I would say pricing is firming up somewhat. So we feel good about some things we're seeing there. In Quebec we've actually seen discounting increase. We are paying close attention to that. We've made some adjustments in our price volume balance and we will continue to do that as we need to. Ontario appears pretty stable. So seeing some regional variation, but a very competitive market, consumers continue to respond to value, as you'd expect in this environment.

Judy Hong - *Goldman Sachs - Analyst*

And then on the cost side, your cost per barrel up 16% in local currency, even if you account for the cycling of the benefit last year, it just looks like the underlying maybe the input cost inflation just came in a lot higher than what you have seen in the first half of the year. Then if I take Stewart's guidance for the full-year it actually implies Q4 you could see maybe even a decline in cost per barrel, so I'm just trying to understand the context of 3Q and then sort of the implication versus the full year guidance.

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

Yes, sure, let me take a stab at that. The increase that we've seen in cost in the current quarter is driven by 3 factors and they are roughly equal in size. One is the input inflation, which accounts for about a third, that's from rising commodities, barley, aluminum and fuel in particular. A third is related to the NAB contract production and then a third is related to 2 items, one is the effect of adjusting to an asset value this year for about \$6 million and the effect of cycling last year's one-time reduction that was equal to about 3 percentage points on our COGS. So those are the 3 items. As it relates to the full year, the perspective I'd give you is year-to-date our COGS per hectoliter would be up high single-digits. We currently expect our Q4 COGS will bring our full-year down to the high end of the mid-single digit range. And that's primarily because we're not expecting additional one-time items and we are also expecting some improvement in sales mix and that's really import domestic mix for us. Does that help you?

Judy Hong - *Goldman Sachs - Analyst*

Yes. And then on the input cost side, is it correct for us to assume because in the first half I think commodities were up 2.5% to 3%. It looks like in Q3 it was maybe closer to 5%, 5.5% if I take your comment?

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

That's correct.

Judy Hong - *Goldman Sachs - Analyst*

And then Stewart, just in terms of the share buyback I think you've talked about desire to be opportunistic with the buyback program, but certainly in Q3 it seems like the amount that you bought back was probably greater than what we've anticipated. So, just maybe help us, just help us with higher thinking about timing in which you are trying to complete the program and then how does that sort of that Class A being included sort of influence the share buyback decision?

Stewart Glendinning - *Molson Coors Brewing Company - Global CFO*

Judy, I cannot help but start by pointing out that I haven't had any complaints about the too much until now.



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Judy Hong - *Goldman Sachs - Analyst*

No complaints, just a comment.

Stewart Glendinning - *Molson Coors Brewing Company - Global CFO*

No, I think, look, as I shared last quarter, we are going to be opportunistic. We are going to buyback the shares as we see the greatest opportunity to create value for shareholders. And we do have the sort of roughly a 3 year period over which we expect to execute this. And we said last quarter that we weren't going to share our specific trading strategies. So, I really am not in a place where I can say, oh, we're going to spend this amount next quarter and this amount in the following quarter. We are going to balance our cash needs as always as we've done to this point based on balance sheet requirements, based on opportunities to grow in the marketplace and based on broadly opportunities to create shareholder value. If you look back in this quarter, we saw it as an excellent opportunity to deploy a fairly healthy amount of cash. We had a good amount of cash on the balance sheet and we thought that the share price was attractively priced.

Judy Hong - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Jeff Farmer.

Jeff Farmer - *Jefferies & Co. - Analyst*

Just going back to Canada for second, I'm curious what the precedence is for the aggressive price discounting you've seen, particularly in Quebec. Does that run its course over 2 or 3 quarters or how long should we expect that to continue? What have you seen in the past?

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

The past won't necessarily be a good predictor. What we've seen is through the last 2 or 3 quarters there has been an increase in discounting in Quebec and I'd say it is a competitive, very competitive market now. What happens in the future is beyond my control in total and so it is very difficult to speculate. I think the fundamental that is driving the increased activity is likely the weaker industry that we had through the beginning of the year.

Jeff Farmer - *Jefferies & Co. - Analyst*

And then sticking with Canada, but shifting to advertising. Obviously you've made comments on the discounting front, but have you seen the advertising intensity pick up over the last couple of quarters, especially from, I would say, you're primary competitor?

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

No, the level of brand building activity seems fairly consistent, fairly constant to me, so nothing that is out of the ordinary. Nor is it being dialed back.



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Jeff Farmer - Jefferies & Co. - Analyst

And then final question for me and I apologize if you touched on this, but in terms of the benefit of the 53rd week in the year, did you comment on what that might mean to EPS in 2011?

Dave Perkins - Molson Coors Brewing Company - President, CEO Molson Coors Canada

We haven't given any -- we won't give any guidance relative to what that will mean for 2011, but I will say that in the fourth quarter when we release our earnings we will be sure to comment on its influence on the fourth quarter.

Jeff Farmer - Jefferies & Co. - Analyst

Okay, thank you.

Operator

John Faucher.

John Faucher - JPMorgan - Analyst

Just wanted to follow-up on the tax rate guidance. Not that I'm looking for you guys to pay more in taxes than you have to from that standpoint, but when you talk about the long-term tax rate, I guess the question sort of how do you define long-term and how should we really look as we map out estimates over the next couple of years to try to figure out where the cash flows are going to be, etc.? What's your thought in terms of how long it is going to take you guys to get back up to what you call the normalized tax rate?

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

John, difficult -- well, first of all, we really haven't and won't give any specific guidance about when we think it will come to pass, but we will reach that. But what is longer term, I'd look out sort of out to 4 or 5 years and I expect that over that --between now and then we will see our rates increase. So this is one of the reasons why we try to give guidance each year during the year to help with where our tax rates are going to go. As you know, there's been a fair amount of volatility and even that volatility we cannot plan for because the outcomes of various tax positions are resolved by closed audits. We take a position that we think is sensible, we give you the guidance at the beginning of the year and then we update it during the course of the year. So, again, look out 3, 4, 5 years, that's sort of as we get to the longer-term and you should expect to see that from this point on we see increasing rates over that timeframe.

John Faucher - JPMorgan - Analyst

So it won't just be one sort of big step -- it will be more like a step function as opposed one big sort of push up from that standpoint, as far as you can tell at this point?

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

That's correct.



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John Faucher - JPMorgan - Analyst

Okay, thank you.

Operator

You're next question comes from the line of --

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

I'm sorry, Mark, before you ask your question I just to John's point, in terms of step up, when we have one-time volatility like we did have that we'll see this year, yes, you will see some step up from that artificially low rate. But if you look back over the last couple of years we will see a gradual increase. I just want to make that point clear. Go ahead, Mark.

Operator

Mark Swartzberg

Mark Swartzberg - Stifel Nicolaus - Analyst

Stewart, a question for you and then over to you, Dave, if I could, on Canada. But, that \$51 million write-down related to or maybe write-down is not the right word, but the planned assumption of a multi-employer pension plan for brewery workers, can you give us some color on why that's happening and whether we should expect any similar charges going forward?

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

So, first I don't think you should expect similar charges going forward. This is a bit of a one-off. In this plan was a multi-employer plan where we were basically the only employer in the plan. So, as we looked at it and the discussions we've had Gavin pointed out this morning that we have highlighted in the past. Our goal was to -- we thought the best way to handle it was to merge it with our existing, with one of our existing plans. The merger of that plan triggers the charge, but fundamentally hasn't changed the real obligations of the organization and we were always going to be obligated to that multi-employer plan.

Mark Swartzberg - Stifel Nicolaus - Analyst

And then, Dave, as we try to and you try to figure out when you get to that inflection in terms of profit trend, local to currency, in Canada, I guess we've had 3 quarters now of high single-digit or maybe upper single-digit rates of decline in pretax income in Canada, local currency. Do you think the worst is behind you when you try to just add all these things up, is it just too hard to call? It seems like the pricing environment is getting better and the volume picture's improving. Seems like there is reason to think that the coming quarters will be better than the last few, is that a fair view?

Dave Perkins - Molson Coors Brewing Company - President, CEO Molson Coors Canada

That would be probably bordering on guidance on this, but some of the factors that we've seen. I mean in the most recent quarter our EBIT was down about 5.2% for the business unit. So, mid single-digits. As I look at what's going on in the market, as they say, it is remaining a very competitive market. We saw the industry performed better in this most recent quarter than has been the case for a little while. We did have very strong, very good weather in most parts of the country. In the one Region



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where the weather wasn't in our favor we did see continued decline in the industry. So just recognize the role that weather plays on the upside, sometimes in the same way that it played a negative role for us in Q2.

So, look, it is going to come down to the health of the industry as we go forward. As Mark referenced for the UK, we are certainly pushing into the challenge of strengthening the beer category in Canada with broader targeting of consumers that we go after with innovation, with expanded occasions that we are developing for beer, but that is a longer term play, I think, when you look at it realistically. So we just need to stay focused on the fundamentals of ensuring that we have a strong brand portfolio, that we are doing the right things for the fundamental health of the industry, and then we will see where that takes us.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

And if I could follow on that, the NHL sponsorship, how impactful do you think that is to your share performance and how costly is it relative to what you're costs have been?

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

The cost of the NHL deal is fully absorbed in existing marketing and sales budgets, so it is not onerous in that sense. I wouldn't take some of the descriptors that you've seen in the press probably on the deal, it is a very reasonable deal for us. It is one that we feel will be an important part of building the health of our portfolio. So, we are really excited about it. The impact of that deal has not yet kicked in, in the sense of driving our business. So, that's ahead of us, that's an opportunity ahead of us. But, no, we feel very good about it. Hockey is something that is very central to Canadian culture and really helps us with a Molson Canadian and the Coors Light brand.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Great. All right, thank you, guys.

Operator

(Operator Instructions) James Watson

James Watson - *HSBC - Analyst*

I had a question I wanted to hear a little bit more about the premium market in Canada. Specifically, kind of compared to the US where we've heard a lot more about the Tenth and Blake operation and just in terms of what you are doing with the prestige sales force and the size of the opportunity and how quickly you can start to realize some of that?

Dave Perkins - *Molson Coors Brewing Company - President, CEO Molson Coors Canada*

Okay, James, we are seeing growth in Canada in what we call the above premium market that is similar to the trends that you'd be familiar with from the US. There's a vibrant craft sector here. There are some strong above premium import brands. In recent months we've seen some weakness in that import sector. I think that consumers are really watching their dollars in that sense. But overall, when you take a longer-term view, there's clearly a trend here that favors the above premium brand. So, what we've done is set up a Company called Six Pints that would be similar to Tenth and Blake.

It has our 2 craft brands, Creemore and Granville Island, in there and the prestige sales force is really a small supplemental sales force that will help us focus on smaller upscale accounts that we want to extend our coverage. That will help both the above



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premium portfolio of brands, as well as even our mainstream scale brands. But, no, we feel there's a meaningful opportunity in the above premium and it's why we are setting up, why we have set up a separate structure and we're pushing into that. So, I think if you look at it in a similar manner as you do in the US that would be fair.

James Watson - HSBC - Analyst

And in terms of a timeframe, so if this above premium has a greater growth rate, when do we start hearing about its effect on overall Canada volume or even on price mix in Canada?

Dave Perkins - Molson Coors Brewing Company - President, CEO Molson Coors Canada

Yes, I think it likely is in the area of mix that you hear about it. It will play a role, I think, in category expansion. There's no doubt that there are some occasions that have gone to the wine and spirits sectors that we should be able to bring back to beer with some of the craft and the above premium import offerings that we have. But I would say the primary focus is really going to be in what we are able to do to premiumize the business. And look, this isn't a quick step up. This is something, as with category health, that over time it starts to make a difference, but to do it right you do want to have some patience about you.

James Watson - HSBC - Analyst

Great, thank you very much.

Operator

Karen Lamark, Federated Investors, Inc.

Karen Lamark - Federated Investors - Analyst

First, thanks for the buybacks. We look forward to more. I want to talk a little bit about your perspective on the balance between price and volume, particularly in the US. I appreciate the inflationary COGS and the need to balance price and mix, but pricing over the last several years has been elevated and it looks like there's a heightened level of elasticity on the volume side, part of it probably going to wine and spirits. But at what point do you start to rethink your pricing posture and maybe moderate it a little bit? Thanks.

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

Okay, I think I'll pass that straight on to Tom, because I think he had a similar question this morning, Tom. Do you want to pick that up?

Tom Long - Molson Coors Brewing Company - CEO MillerCoors

Yes, hi. It is a very important question. Our pricing strategy in the United States has been to pass along essentially inflationary cost and before the joint venture beer had under indexed the inflation in the United States and since that time we have just about passed on inflation. This is very consistent pricing policy actually in the US. Nevertheless, there is a price gap compression that we talked about at the top end and we've had 2 really solid years of squeezing the -- closing the gap between below premiums and premiums. And so there is some more pressure on whether that closing the gap, minding the gap strategy on the bottom end will continue to produce results in our biggest sector. And so we find we watching just very carefully and again, when you look at elasticity in beer you almost have to look at it brand by brand. And our approach has been to keep very



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consistent in our pricing, passing along factor costs, input costs and try to make our brands more relevant such that we have the choice of either taking price or taking share. And that's the sweet spot that we've been striving to get too. In this case we've been taking price.

Karen Lamark - *Federated Investors - Analyst*

Is there a market share or I guess decline or a volume decline that's intolerable to you as you think about this balance?

Tom Long - *Molson Coors Brewing Company - CEO MillerCoors*

No. Of course there are step changes. There were some of the questions that were asked earlier about brewery and infrastructure. And there's some step changes in our cost structure that we are mindful of. But at this stage we don't see those.

Karen Lamark - *Federated Investors - Analyst*

Okay, thank you.

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

Thank you.

Operator

(Operator instructions). There are no further questions at this time.

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

Okay, well thank you, Melissa, and thank you, everybody, for joining us today and if you're interested in Molson Coors we look forward to speaking to you again at the end of the fourth quarter.

Operator

Ladies and gentlemen, this concludes today's conference call, you may now disconnect.

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