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TAP - Q3 2013 Molson Coors Brewing Company Earnings Conference Call

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CORPORATE PARTICIPANTS

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

Gavin Hattersley *Molson Coors Brewing Company - CFO*

Stewart Glendinning *Molson Coors Brewing Company - CEO Molson Coors Canada*

Mark Hunter *Molson Coors Brewing Company - CEO Molson Coors Europe*

CONFERENCE CALL PARTICIPANTS

Judy Hong *Goldman Sachs - Analyst*

Mark Swartzberg *Stifel Nicolaus - Analyst*

Ian Shackleton *Nomura International - Analyst*

Brett Cooper *Consumer Edge Research - Analyst*

Bryan Spillane *BofA Merrill Lynch - Analyst*

Robert Ottenstein *ISI Group - Analyst*

Dara Mohsenian *Morgan Stanley - Analyst*

PRESENTATION

Operator

Welcome to the Molson Coors Brewing Company third-quarter 2013 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 those 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.

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

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

Thank you, Jay. Hello and welcome, everybody, and thanks for joining us today. With me on the call this morning are Gavin Hattersley, Molson Coors CFO; Tom Long, CEO of MillerCoors; Stewart Glendinning, CEO of Molson Coors Canada; Mark Hunter, CEO of Molson Coors Europe; Kandy Anand, CEO of Molson Coors International; Sam Walker, Molson Coors Chief Legal & People Officer; 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 2013 results for Molson Coors Brewing Company, along with some perspective on the fourth quarter.

In the third quarter, Molson Coors increased underlying after-tax earnings nearly 8%, expanded underlying margins, grew underlying EBITDA and free cash flow and reduced our net debt. As we anticipated on our earnings call last quarter, consumer demand remained weak across all of our markets. Despite this poor consumer uptake, we have continued to invest in our core brands. Our innovation pipeline is delivering mixed single-digit percent of sales on our owned to book premium brand portfolio is growing at a double-digit rate globally. In the third quarter, US revenue per



hectoliter growth was driven by positive net pricing and sales mix. Coors Light grew market share in the premium light segment in the quarter, according to Nielsen. And our booked premium segments saw strong growths in Redd's, Leinenkugel's and Blue Moon.

In a weak Canada market, Molson Canadian grew share in the quarter, particularly in Quebec. But our other core brand, Coors Light, lost volume and share. Our premium segment benefited from the launch of Molson Canadian Cider, Rickard's Shandy, and Coors Banquet while our Granville Island and Creemore Springs craft brands achieved strong volume growth.

We have also decided to accelerate the termination of the joint venture which controls the Modelo brands in Canada ahead of the current expiration date of January 1, 2018. Anheuser Busch InBev will assume control of the brands on March 1, 2014. Although there's no obligation to end the agreement early, we have reached favorable terms with ABI, resulting in compensation of CAD17 million to Molson Coors. Additionally, our agreements to represent the Modelo brands in the UK and Japan have been confirmed through to the end of 2014.

Despite weak industry demand, our Europe business grew volume nearly 1% and again increased overall market share. This was driven by positive share performance in the UK, Croatia, Bulgaria, and the Czech Republic, along with continuing share trend improvement in Romania. Carling, our largest brand in Europe, grew both volume and share in the UK. And our premium brands Coors Light, Doom Bar in the UK, as well as Staropramen outside of the Czech Republic all grew strongly. In international we achieved Coors Light volume growth in Mexico and Latin America. Carling gained market share in the Ukraine. And we launched the brand in Russia in the third quarter.

We made progress on our global cost savings and cash generation targets and paid down nearly \$282 million of net debt in the quarter. We will also deliver the cost savings that Gavin announced during the June Investor Day in New York. We also continued to standardize processes to reduce complexity and improve efficiency. We are accelerating our commitment to reduce costs. And following last year's restructuring in Europe, a similar program has been announced in the US. And we are currently benchmarking our performance in Canada to insure that we have a competitive cost base for the future.

Now I'll turn it over to Gavin to give third-quarter financial highlights and perspective on the last quarter of 2013. Gavin?

Gavin Hattersley - Molson Coors Brewing Company - CFO

Thanks, Peter. And hello, everybody. Molson Coors third-quarter underlying after-tax earnings increased 7.7% to \$268.1 million or \$1.45 per share. This growth was driven by improved performance in the United States, Europe, international and corporate, along with a lower effective tax rate. This lower tax rate was primarily due to changes in the geographic mix of income and one-time tax benefits in the quarter. Favorable foreign exchange movements and lower interest expense also contributed to improved results in the quarter. Underlying operating income increased 0.6% while underlying pre-tax income grew 4.2% in the quarter. Worldwide beer volume for Molson Coors decreased 0.9% due to lower volume in Canada, the United States and international.

In our third quarter, our US GAAP after-tax income declined nearly 39%, primarily due to a \$150.9 million writedown of the value of two brands in our Europe business. This charge was the result of our annual asset impairment testing process, which drove fair value adjustments to Jelen, a mainstream brand in Serbia, and to Ostravar, a regional brand in the Czech Republic. Both of these brands have recently faced increased competition, reduced market share and macroeconomic weakness in their markets, which are driving lower projected cash flows for these brands. Also, higher discount rates in both Serbia and Czech Republic were factors in the asset impairments, as was a 50% increase in Serbian income tax rates. As we have in previous quarters, I'll provide an overview of our results of Miller Coors 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 were unchanged from the prior year as positive pricing and mix offset lower volume. Pricing growth across all regions and improved mix in the US drove a 0.9% in net sales per hectoliter. Underlying cost of goods sold per hectoliter increased 0.5% due to higher cost of goods sold per hectoliter in the United States. Total Company gross margin was 41.6%, 20 basis points higher than a year ago, primarily due to gross margin growth in Europe, international and the United States.

Underlying marketing, general and administrative expenses were largely in line with prior year, driven by increases in Europe that were offset by declines in other business units. Underlying operating margin was 17.4%, up 20 basis points from a year ago driven by positive pricing and cost



reductions globally. Our underlying earnings before interest, taxes, depreciation and amortization, or EBITDA, was \$464.3 million in the third quarter, 0.6% higher than a year ago. Year to date, underlying EBITDA grew 5.8% to \$1.15 billion. Please see the earnings release we distributed earlier this morning for a detailed review of our business unit financial results in the quarter.

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 \$163.1 million pre-tax charge. In addition to the intangible asset writedowns that I've described earlier, these exclusions from our US GAAP results primarily relate to the net effect of unrealized foreign exchange and fair value adjustments associated with the EUR500 million convertible note that we paid off in the third quarter, along with restructuring and integration related costs in Canada and Europe. These special and other non-core items are described in detail in this morning's earnings release.

Underlying free cash flow for the first three quarters of this year totaled \$746.8 million. This represents an increase of \$1.8 million versus last year driven by higher year-to-date net income. Free cash flow year to date this year was made up of the following factors. \$1.03 billion of operating cash flow, which includes \$438 million from Miller Coors, plus \$37 million of net add-backs primarily related to cash paid for restructuring activities. Investing cash outflows were \$218 million of capital spending and \$102 million of cash invested in Miller Coors. Total debt at the end of the third quarter was \$3.89 billion. And cash and cash equivalents totaled \$407 million, resulting in net debt of \$3.48 billion, approximately \$282 million lower than three months earlier.

In the third quarter we used a combination of cash on hand and commercial paper issuance to pay off maturing convertible notes of \$575 million and EUR500 million. We also used cash on hand and revolving credit lines to pay off our Euro term loan of EUR54 million and cross currency swaps with an out-of-the-money liability value of \$31 million. As recognition of our progress in strengthening our balance sheet in September S&P reaffirmed our credit rating of BBB-, and changed our outlook to positive, up from negative previously. In upgrading its outlook, S&P said that it believes we will continue to repay debt and strengthen our credit measures over the next one to two years to levels that support a higher rating during the outlook period.

Looking forward to the fourth quarter, we are tightening our full-year underlying effective tax rate guidance to a range of 13% to 15%, which reduces the top of the range by 2 percentage points, primarily as a result of one-time tax benefits of tax law changes in Canada. This outlook for the full year includes total one-time benefits of an underlying rate impact of approximately 4 percentage points. Our rate guidance range for the fourth quarter is 14% to 18%, assuming no additional tax law changes, settlements of tax audits or adjustments to our uncertain tax positions. We continue to expect our underlying effective tax rate to move towards a range of 20% to 24% over the medium term.

We are adjusting upward our cost of goods sold particularly to guidance for our Europe and international businesses. We now expect low single-digit increases for both of these businesses for the full year in local currency. In both cases, the cost outlook changes are driven by mix shifts towards a higher cost range, channels, or geographies. Also, the cost of goods sold per hectoliter outlook in the United States has moved up into the mid single-digit range due to the strong growth in above premium brands which are higher cost.

We are lowering our capital spending outlook from \$330 million to approximately \$300 million for the full year. Our full-year forward guidance is unchanged from last quarter for the following metrics. Underlying free cash flow, which is still \$700 million, plus or minus 10%. However we currently expect this to be in the upper half of that range. Defined benefit pension expense and contributions, which are expected to be approximately \$50 million of expense. And \$150 million of cash contributions, including our 42% share of Miller Coors expense and cash. Corporate and G&A expense of approximately \$105 million, excluding foreign exchange movements. Consolidated net interest expense of approximately \$170 million. And cost of goods sold per hectoliter outlook for our Canada business continues to be up mid single digits in local currency.

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

Peter Swinburn - Molson Coors Brewing Company - President and CEO

Thanks, Gavin. So, in the US, we will continue to drive the above premium part of our portfolio through the Redd's, Blue Moon, and Leinenkugel's franchises. High-end innovations for early next year will include Miller Fortune and Smith & Forge cider. In premium lights we will have fresh advertising copy and packaging for Coors light. And we'll introduce the original Miller Light can for a limited time.

In Canada, we are pleased to see the return of the National Hockey League. Nonetheless, we are not seeing last year's lost volume return. And we anticipate that Canada volume and profit trends in the fourth quarter will continue to face significant macroeconomic and promotional challenges. We will also be cycling substantial MG&A expense reductions, including much lower NHL sponsorship and promotion costs during the lockout last year.

In Europe, our portfolio and innovations are achieving their best market share performances in years, in the United Kingdom, Czech Republic, Bulgaria, and Croatia. Nonetheless, the positive summer weather in the UK is behind us and the region continues to be challenged by a weak economy and demand volatility, especially in Serbia, Romania and Bulgaria. While we expect difficult conditions to continue in the fourth quarter, we will remain focused on driving our core brands above premium and innovation. And as a result we expect higher Europe MG&A expenses in the fourth quarter.

Our international business continues to focus on growth driven by Coors Light, Carling, Staropramen and Blue Moon. By year end, we plan to launch our partnership with Coca-Cola Amatil and introduce some of our signature brands into the Australia market. In the fourth quarter we expect higher international G&A expense due to the reversal of the third-quarter overhead timing benefit and the Australia launch.

Finally, here are the most recent volume trends for each of our businesses early in the fourth quarter. In the US for the first four weeks ended October 26, STRs declined low single digits. In Canada, our sales to retail for the first four weeks of the quarter increased at a low single-digit rate. In Europe, our sales volume decreased at a low single digit rate for the first month of the quarter. And in the first four weeks of the quarter, our international sales volume, including royalty volume, decreased at a low double-digit rate. 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.

So, to summarize our discussion today, in the third quarter, we grew underlying after-tax earnings nearly 8%, expanded margins, grew underlying EBITDA and free cash flow, and reduced our net debt. We continue to see weak consumer demand and shifts in consumer preferences that will impact our business for some time. In this environment we will accelerate our commitment to transformational efforts to grow our brands and make Molson Coors more competitive and to drive total shareholder return going forward.

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 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. This call will also be available for you to hear via webcast on our website.

So, at this point, Jay, we would like to open it for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Judy Hong with Goldman Sachs.

Judy Hong - Goldman Sachs - Analyst

Thank you, good morning. First, just on Canada, I was surprised by the volume weakness in the third quarter, particularly as you're lapping some of the negative impact last year from the can shortages. So maybe just some color around what's happening, both from a macro perspective and the competitive situation, whether you've seen actually even a step up in terms of the competitive activity sequentially in the quarter. And how are you thinking about, as you get into the fourth quarter, to your point, you've got spending comparisons that are going to be pretty easy, but then you've got -- sorry, tough, from just not spending money last year -- but you also have very easy volume comparison with the hockey strike. So can you just help us in terms of volume and spending outlook in the fourth quarter?



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

Yes, certainly, Judy. I'll pass it on to Stewart for the detail, obviously. But the third quarter was disappointing in terms of volume. Overall, weather didn't help but, even so, taking that to one side it was a disappointing quarter. We tried to outline quite clearly in the script how we see things going forward and what the headwinds will be. But, Stewart do you want to pick up on the detail?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Sure. Judy, the third quarter is heavily influenced by the performance of Coors Light. We didn't see the same kind of performance we saw last year. Last year was particularly strong for Coors Light, with Coors Light Iced Tea launch, a lot of news around the brand. We saw a lot less news in this year. That will change in the future. Relative to Q2 and our comments, there are really three things to note. First of all, hockey is back and it's a valuable property for us, and it's working well for the activation of our brands. But if you look at the overall trends year to date, they've been worse than what we expected. And so, while we expect Q4 to be better than the year-to-date trend, because of the year-over-year comps that you mentioned, the underlying market weakness will still influence the overall result. But, more importantly, in Q2 we noted in our release that we've had a significant marketing phasing benefit which we expect it to reverse in the back half. And you're now going to see that coming through in Q4. So that's how I'd put the pieces together. Your last piece of your question was what's the competitive environment look like. The market remains very competitive. I would say that specifically from a pricing perspective, we have seen an environment with strong pressure to keep prices lower and with a more heavily promoted packaging mix.

Judy Hong - *Goldman Sachs - Analyst*

Okay. Maybe just taking a step back, though. I think if you look at your performance in Canada, lowest market share in the third quarter that we've seen, I think, in the last several years. Your margins are continuing to slide here. I just wanted to get some perspective on what is really a realistic outlook for this business in the near term. Are there any structural solutions to what you're facing in Canada? Or just any step change in terms of the cost structure? I know you're focused on getting more cost savings but is there something beyond what you're doing already just because it just seems like we've been in a much more challenging situation than we would have thought entering the year?

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

Yes, taking it at a headline level, Judy, if you look at the overall position in Canada, we've gained market share in the value segment. And that's been an issue for us over quite a long period of time. We're gaining market share in our own premium segments. And we've got a very strong innovation program coming through. So we're pleased with that. The issue really has been in our core brands. And within that, Canadian has performed very well, and Coors light has been a disappointment, specifically in the quarter. Some of that is down to very difficult comps. But also there's work we need to do in investing behind the brand. We're very clear what we need to do about that. Additionally, our cost base is something that we do need to address. We're confident we will do that. We've tried to signal in the script that we're starting work on that. That obviously will be a multi-year program. We do believe there's work we can do that will help our net profit percentage, as well. So that's how we're viewing the overall business. But the overlaying issue is that consumer demand has been weak and that has not helped us.

Judy Hong - *Goldman Sachs - Analyst*

Okay. And then just, finally, Gavin, I know there's been some moving parts in terms of your free cash flow outlook. I just wanted to get your latest expectation on the timing in which you get to your leverage targets.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Thanks, Judy. We're still on track with the program which we announced a year ago when we did this StarBev acquisition. We are expecting, we had a target to get back to our pre-StarBev acquisition leverage ratios in the two- to three-year time frame, and we're on track with that. We're pleased with the work that we're doing on working capital, generating working capital, so we're pleased with the progress we're making against the target that I announced in New York in June. So the short story, Judy, is we're on track with that two- to three-year time frame that we announced a year ago.

Judy Hong - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Mark Swartzberg with Stifel Nicolaus.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Thanks, good morning, guys. A couple of questions also here on Canada. Firstly, the Corona comment, the Modelo comment, could you repeat that? And how much volume is going to be lost here, contribution to profits? Can you help us with some sense of the negative impact there?

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

I will repeat what I said, Mark, so you've got it exactly. We have decided to accelerate the termination of the joint venture which controls the Modelo brands in Canada ahead of the current expiration date of January 1, 2018. Anheuser-Busch InBev will assume control of the brands on March 1, 2014. Although there is no obligation to end the agreement early, we have reached favorable terms with ABI, resulting in compensation of CAN17 million to Molson Coors. Additionally, our agreements to represent Modelo brands in the UK and Japan have been confirmed to the end of 2014. All the detail of this is in the Q, Mark, so you can pick it up there. But, Stewart, do you want to add any detail to that?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Yes, sure. Mark, on your question around volume, the Corona volume which is not in our financial volume but which is in our STRs, is in low single digits. That's the best guidance for that number. Relative to profit, if you look back at historic filings, we have had about \$12 million to \$15 million a year of pre-tax equity income coming through. And then about \$5 million to \$7 million a year of various administrative cost recoveries. And then there's about \$3 million to \$5 million of variable cost reimbursements. I think what's important to know here is that the way that the deal has been structured, we've effectively been paid for the profits that we would have received between now and the natural expiration of the contract. And so the profits, obviously, which we've come out of our P&L, will be in the bank early next year. Relative to some of the costs, some of those costs just disappear along with Modelo.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it. And I hate to be overly technical here but I will be. That was a seven-zero million Canadian dollar comment in terms of compensation? I know it's going to be in the Q, but -- seven-zero, not one-seven?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Seven-zero.



Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it. And then -- what's that?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

That sounds like a much better number, yes.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Yes, exactly. And then, Stewart, that comment about \$12 million to \$15 million, \$5 million to \$7 million, and \$3 million to \$5 million, when you net all those numbers together what kind of per annum pre-tax income has it been generating for you?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Those are the components, Mark, as I shared. The reason I explained them separately is the \$12 million to \$15 million is something that won't repeat. The \$5 million to \$7 million is cost reimbursement, again some of our costs, some of which are direct, and the variable costs we wouldn't continue to have. So that's why I framed them up in those three buckets so that you can model them. All of that comes through -- the equity income, rather, comes through in the COGS line. So you'll have to make in your models adjustment to COGS to reflect that. The other ones come through in their natural expense lines.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

That's great. Okay. We can take up the rest with Dave later. Just also on Canada, two questions. Firstly, the cost of sales per hectoliter guide, I was surprised it didn't change for the year given the really low increase in the third quarter. Can you give us some sense of what kind of cost of sales per hectoliter increase you would expect to see in the fourth quarter? And, then, secondly, more strategic, we've heard rumblings that on certain packages in certain regions you guys are being more promotional. Can you speak to where you think it's appropriate to be more promotional, either packages or regions, and where you tend to be more disciplined?

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

Stewart, I think I'll let you do both of those.

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Sure, okay. On the first -- sorry, Mark, the first one went right out of my head.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Cost of sales per hectoliter, fourth quarter.



Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Oh, yes, sorry. We've given you guidance for the full year as mid single digits. I think you look at this quarter we've had 1.4%. So I get the reason for your question. But, actually, if you look at the first half of the year, we had roughly a 6% cost. So between those three numbers, and given our guidance for the full year, I think you can interpolate what the fourth quarter will look like.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

It sounds like it's fair to think it's more in the low single digit side.

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

We said it's mid single digits for the full year. So, given the year to date and the full year, I'm sure you can calculate what the fourth quarter is.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Fair enough.

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

On packaging, this is just finger pointing about who's more aggressive. I think there are always promotions across the country. And at some point, somebody advertises a package. The specifics, I'll just tell you. I'm not going to get into who drove what because I think there's no answer to that. I can tell you that when you look across the country, the West, there's less promotional pressure in the West, pricing in general. Also, what you're seeing in the West, you're seeing a dynamic where value is continuing to grow because of the split between value pricing and premium. The place where we're seeing most of the pressure is in Quebec. And there is a good deal of pricing, actually, across a broad range of brewers in that market. You need only look at the offers that are in the market. In Ontario, we've seen less price promotion and more in-case offers. So that's probably a canter across the big markets of the country.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

That's great. Okay, thank you, sir.

Operator

Ian Shackleton with Nomura.

Ian Shackleton - *Nomura International - Analyst*

Good morning, gentlemen. I think Peter gave us some bit of a feel for the European markets. But I wasn't quite clear what happened there, particularly in terms of share gains. Perhaps you could just give us a little bit of an idea which specific European markets you gained share in Q3?

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

Certainly, Ian. We gained share in the United Kingdom, the Czech Republic, Bulgaria and Croatia. And our market share trends in Romania improved in the quarter.



Ian Shackleton - *Nomura International - Analyst*

When we think about the two brand writedowns from within the StarBev acquisition, clearly the business has performed quite well since you bought it. There must be some of the brands where effectively your value has gone up. But I presume you weren't allowed to net those off. Is that the way the accounting works there?

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

I'm on thin ice when it comes to accounting rules so I'll pass that over to Gavin, if that's okay, Ian.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

You're absolutely right. We impaired Jelen and Ostravar. Jelen, for a number of reasons -- the economic environment, the discount rate increased given the profile of Serbia as a country, and we had a tax increase of 50%. Ostravar is our third largest brand in the Czech Republic. It's a very regional brand, operating in a very troubled economic area. And you're correct, that some of our other brands, like Staropramen and Kamenitza and [nikseka] increased in value substantially over the last year. But, unfortunately, on a brand-by-brand basis from an accounting guidance point of view you can't net between brands. But the over-arching comment I would make is that at our Europe business unit level, we have no impairment, which drives you to that conclusion.

Ian Shackleton - *Nomura International - Analyst*

Thanks for that. And just one final thing around Europe. Just to be clear, the Corona brand in the UK, you'll keep that through all of 2014. Is there any further compensation that will be paid when that goes?

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

We have got the brand through to the end of 2014, Ian. That's what the announcement says.

Ian Shackleton - *Nomura International - Analyst*

Okay. There, again, can you give us -- you gave us a reasonable feel for what that meant in Canada. Can you give us a feel for what that meant for the UK profitability?

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

We said we can't give you the detail about that. That's confidential. It's a relatively low amount of our UK overall profitability. But, Mark, do you want to embellish on that?

Mark Hunter - *Molson Coors Brewing Company - CEO Molson Coors Europe*

Hi, Ian. We haven't been specific on that but it's low single-digit percent of our total profitability in the UK.

Ian Shackleton - *Nomura International - Analyst*

Very good. Thanks very much.



Operator

Brett Cooper with Consumer Edge Research.

Brett Cooper - *Consumer Edge Research - Analyst*

Good morning, guys. On the popular theme of Canada, you brought up the idea of benchmarking. Can you just talk, if we think about the loss of the Corona brands and the cost that would be associated, or still on your books as a result of that? And then obviously there's the upcoming trial for the Miller brands. How that all works in on, whether it's rethinking your brewery footprint or your labor force. Can you just give us some color on that side?

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

Yes, I'll let Stewart give you the complete detail. But, as we said in the script, we are looking at our cost base across the whole piece so that would cover both supply chain and MG&A. We have done similar projects in the UK recently. And also, as Tom announced some weeks ago, we are doing a similar thing in the US. So it's a path that we trod quite well. We are still in the process of understanding exactly what that might look like in Canada. But we do know, as in the UK, if you include supply chain it's going to be a multi-year project. And when we are clearer about what that looks like, obviously we'll come back and give you the full detail. But, Stewart, do you want to talk about Corona and Miller to any extent?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Yes, I'm not sure there's anything extra to offer other than maybe two things. First of all, on the cost reduction side, to Peter's point, we have an active project underway to consider all those options. With respect to Miller, we are continuing to support the brand and to do a good job of that. Until we hear otherwise that's going to continue to be our brand with respect to Corona. We've been paid for that. So I'd say all around we feel pretty good about the direction we're going.

Brett Cooper - *Consumer Edge Research - Analyst*

Thank you. One follow-up. In Tom's cost reduction, they've said that a lot of that is going back into the market in terms of brand support. Can you talk generally how you feel about your level of brand support in Canada, whether the cost reduction you would see the drop in the bottom line? Or do you feel the need for greater level of in-market spending?

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

As with our US business we feel that we would like to see the majority of any cost savings we invested back into our business. But in all honesty, Brett, until we know exactly what that looks like it's difficult to give you any more precision.

Brett Cooper - *Consumer Edge Research - Analyst*

Perfect, thank you.

Operator

(Operator Instructions)

Bryan Spillane with Bank of America.

Bryan Spillane - BofA Merrill Lynch - Analyst

Hi, good morning. Just another follow-up question on Canada. And forgive me if I missed this earlier. But I think it's price per hectoliter in the quarter was down 0.3%. I think in the press release you talk a little bit about the mix shift being a drag and then pricing being up. Can you give us a little bit more color in terms directionally how much the mix shift drag and what the pricing was in the quarter?

Peter Swinburn - Molson Coors Brewing Company - President and CEO

Stewart, do you want to take that?

Stewart Glendinning - Molson Coors Brewing Company - CEO Molson Coors Canada

Yes, happy to do that, Bryan. If you looked at the quarter, we were pleased to see that we saw about 1.2% of positive pricing. But that was offset by 1.5% of negative mix.

Bryan Spillane - BofA Merrill Lynch - Analyst

Okay. And was the pricing that you took in the quarter -- just how did that stack up relative to the market? What I'm trying to get at is, is the volume weakness and the market share weakness at all related to where you are on price gaps or pricing, or is that not really an issue that's been driving the market share?

Stewart Glendinning - Molson Coors Brewing Company - CEO Molson Coors Canada

I think that pricing has been driving the market share. If I look at the places where we'd lost volume, we're losing volume mostly to the smaller brewers which are playing in two places. One in value where they've been competing and pushing very hard on value. So we've seen aggressive pricing there. And the other is on craft. And I think on craft, we've been doing a really good job. But the size of our craft portfolio relative to the rest of our total portfolio is much smaller. So we have to gain at a faster rate in order to make up the volume loss.

Bryan Spillane - BofA Merrill Lynch - Analyst

Okay, thanks. And then, Peter, just second question, can you talk a little bit about -- you've made some changes in terms of changing the operating segments. You've made some personnel changes. So just how you feel about just organizationally. Do you feel like you're set at this point in terms of how the organization has adapted or adjusted to those changes? And also just in relation to especially the Canadian market being difficult, but just in general, it's been a tough operating environment, just how you feel about where the organization stands at this point relative to some of the changes you've made.

Peter Swinburn - Molson Coors Brewing Company - President and CEO

Obviously, the biggest change that we've had to accommodate, Bryan, has been the inclusion of the Central European business and the combination of that with the UK. As we said in previous calls, the integration of that has gone exceptionally well. We made the call to integrate the whole of Europe earlier than we otherwise would have chosen to do because the integration had gone so well. So we're very pleased with that. It's still work that's ongoing but we are establishing a very firm platform across Central Europe.

Part of what we can and can't do from an organizational point of view does rely on the comment I made in the script about our ability to standardize our operations. And so we do really need to get the organization on one platform so that we have the flexibility to decide what we want to do organizationally. So I think that's job one. We're well on track for that. We're probably not going to complete it until the middle of 2015 but we can make decisions in advance. Generally, above and beyond that, to be honest with you the view that I take on organizational structure is it's a constantly moving feast and you always have to review it, make sure that it's fit for purpose. And also reflects what the requirements of the external world are. And at the moment, as we said, the external world in our markets, not necessarily doing any favors. So we constantly have to look at how we can make sure our organization structure is as efficient and lean as possible.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Robert Ottenstein with ISI.

Robert Ottenstein - *ISI Group - Analyst*

Great. Thank you very much. A couple of questions. On the Corona Canada situation, is there any anti-trust review there? And if so has that been completed and could there be any other outcomes because of that?

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

We don't anticipate any anti-trust issues at all.

Robert Ottenstein - *ISI Group - Analyst*

Great. Second, what would be your best estimate today of your capacity utilization in Canada, and how the footprint looks. Any plans to change that? And any possibilities on your side in terms of making perhaps some acquisitions in Canada that could perhaps improve your utilization if it's running too low?

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

Again, I'll let Stewart pick up on some of the detail. But just a couple of overall comments. And I'll certainly take the last one. I think we've said that we really are focused on paying down our debt over the near to medium term. But equally, should an attractive brand proposition come up, then we would certainly consider it. There's nothing in our sights at the moment but we are always open to that in terms of improving our overall portfolio. The other comment I'd make is we can talk about overall capacity in Canada but it is a very large country. And what really matters is it's the capacity by province and neutralization by province. And obviously when we look at the overall cost structure of the business, that's something that we're going to take into account going forward, our total brewery footprint. Stewart, is there anything else you want to add?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Look, we don't actually share the specifics of our capacity utilization, Robert. But suffice to say that we do have some excess capacity and that is forming part of our plan to understand how to reduce our overall costs. As Peter said, when you look at your supply base and the footprint, that does end up being a multi-year project. We fully expect it but there are opportunities to take advantage of that.



Robert Ottenstein - *ISI Group - Analyst*

But what I heard from the prior comment, though, is just it's because of the size of the country and the costs of shipping beer. It's tough to take plants out because the increased cost of distribution would perhaps offset some benefits on the manufacturing side. Did I hear that right?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

I don't think so. I think what I was trying to say was that it's really of little value to give you an overall capacity figure for the whole of Canada. That you have to look at the capacity of breweries within provinces. And then you make decisions about those specific breweries within those provinces.

Robert Ottenstein - *ISI Group - Analyst*

Okay, great. Thank you very much.

Operator

Dara Mohsenian with Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

Hi, good morning, guys. I wanted to go back to Canadian volume for a minute. The commentary was helpful, but it certainly seems like a pretty pronounced change on the volume front. So, can you give us a sense how much of the volume weakness is more the competitive environment versus other issues like marketing effectiveness, brand equity in general? And then the strategies you're implementing to try to improve trends going forward. And when you think we might see some more traction around that.

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

Certainly the pressure as I think we've said already on the call really came in our core brands. And specifically in Coors Light. But, Stewart, Stuart do you want to repeat or go over anything you said before?

Stewart Glendinning - *Molson Coors Brewing Company - CEO Molson Coors Canada*

Yes. First of all, I don't think we've seen a dramatic inflection. I think we've seen some pressure in this market over a number of years and we're working to change that. So what are the things that are changing? First, we've seen a dramatic improvement in the performance of Canadian and we're very pleased about that. We've now started to gain share in value and we're pleased about that. We're gaining share in above premium as we press harder with our brands there. As I mentioned, we under-indexed there so we have to accelerate growth even further to replace lost volume in premium. And on the import side, we've had flat share. So the issue comes back to Coors Light and a couple of the tail brands. I think we have a clear understanding what the drivers are. There is some promotional mechanics that we will need to be prepared to answer there. But against the brand itself we need more news. We'll expect to see that with more promotion around the vented can. We're already seeing a lot of excitement and strong performance from the rollout of Coors Banquet. And I expect that to continue next year. That will help the overall trademark. So I suppose I'm in a place that is fairly positive in terms of understanding what the drivers are and having a plan to address that on an ongoing basis.



Dara Mohsenian - Morgan Stanley - Analyst

Okay. Is marketing a significant piece of trying to address that going forward? Would you expect a significant marketing increase or does it depend on some of the cost savings you get?

Stewart Glendinning - Molson Coors Brewing Company - CEO Molson Coors Canada

Yes, I think that, to Peter's point, we do expect to invest savings back into the Company. Having said that, we'll take that on a brand-by-brand basis. What I do think is that, if I looked at the current copy of Coors Light, it's done a good job of bringing to life cold. It perhaps hasn't done as good a job around refreshment. And I think you'll see us address that in our new copy next year.

Dara Mohsenian - Morgan Stanley - Analyst

Okay, thanks.

Operator

There are no further questions at this time. I'll turn the call back over to the presenters.

Peter Swinburn - Molson Coors Brewing Company - President and CEO

Okay, thank you, Jay. And thank you, everybody, for joining us this morning or afternoon, wherever you are in the world. Look forward to speaking to you again when we announce our fourth-quarter results. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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