

FINAL TRANSCRIPT

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TAP.A - Q1 2011 Molson Coors Brewing Company Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Alicia and I will be your conference operator today. At this time I would like to welcome everyone to the Molson Coors Brewing Company's 2011 first quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions) Before we with get started I want to paraphrase the Company's Safe Harbor language.

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

Regarding any non US GAAP measures that may be discussed during the call and from time to time by the Company's executives in discussing the Company's performance please visit the Company's website www.molsoncoors.com and click on the financial reporting tab of the investor relations page for a reconciliation of these measures to the nearest US GAAP results.



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

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

Hello, welcome, everybody and thank you for joining us today. With me on the call this morning is Stewart Glendinning, Molson Coors' CFO; Tom Long, President and Chief Commercial Officer for Miller Coors; Gavin Hattersley, CFO of Miller Coors; Dave Perkins, CEO of Molson Coors Canada; Mark Hunter, CEO of Molson Coors UK; Kandy Anand, President of Molson Coors International; Sam Walker, Molson Coors Chief Legal Officer; Bill Waters, Molson Coors Controller; Dave Dunnewald, Molson Coors VP of Investor Relations.

And for the last time I can say we're also joined today by Leo Kiely, CEO of Miller Coors. In Leo's 18 years with the Company, he's been on more than 70 of these earning calls, so he has certainly more than paid his dues. We will miss Leo but while thanking him for his great service to the Company, we also welcome Tom Long to his new role and congratulate him on his appointment effective June 1. So Leo, well done and Tom, congratulations.

On the earnings call today Stewart and I will take you through highlights of our first quarter 2011 results for Molson Coors Brewing Company along with some perspective of the balance of 2011.

In the first quarter, our Company increased underlying after tax earnings by 17%, and expanded margin significantly despite continuing challenges from weakened industry volume and accelerating global commodity inflation. We faced particularly difficult volume comparisons in Canada as we cycled last year's Vancouver Winter Olympics, but our volume trends in the US, UK and International improved versus recent quarters. Equally important the strength of our brand has drove positive pricing and net sales growth across our Company. We also continued to exceed our cost reduction goals which provided resources to invest in our brands, grow earnings and generate cash.

Although the first quarter is a low season quarter for our core businesses in both profit and cash generation, these results reflect progress against the growth strategies we laid out for you two months ago during our annual investor day in New York. To remind you, in that meeting we said our strategic growth focus would rest on three pillars; maximizing the profitable growth opportunities in our core markets, accelerating our push into new markets to grow our brands globally and looking for M&A opportunities that meet our criteria for generating shareholder value and to provide solid growth platforms for our business and brands.

First, in our core markets our strategic focus has been on investing behind our brands delivering value enhancing innovation and effectively managing our cost structure in our mature markets. Our efforts to strengthen our brands and lead innovation in our markets have helped improve brand health, support positive pricing and generate a lot of excitement in the category.

Here are just some of the current examples. Coors Light has outperformed the competition in the past few years in both market share and average price. Our largest and most international brand grew at low single digit rate globally in the first quarter. In the US, Miller Lite's volume performance continued to improve with this brand growing market share in the first quarter. In Canada, Molson Canadian was up against a difficult comparison cycling the 2010 Vancouver Olympics but we grew NSR per hectoliter across four markets and we also launched Molson Canadian 67 into the Quebec market in the quarter.

Early this year we also signed our new national hockey league sponsorship under which Molson Canadian will have new opportunities to grow in Canada and expand in the US.

Additionally, we expanded Molson M in Ontario, to western Canada and Keystone Lager to Ontario while renewing the Molson export brand with focus in Quebec. Overall we have introduced more new products in Canada in the past 18 months than during the previous 15 years.



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In the UK our recently strengthened portfolio gained overall market share for the second quarter in a row and finally we recently acquired the Sharp's Brewery which produces Doom Bar, one of the UK's fastest growing cask ales. These ales play the top end of the category similar to craft beers in the US and Canada.

In our second growth pillar our international group has increased its investment rate behind Coors Light. Carling and other brands -- sorry, Coors Light, Carling and other brands has been growing the top line at high rates in a select group of new markets. International business volume grew more than 45% in the first quarter driven by the addition of the Si'hai brands in China and growth of Coors Light in Latin America and China. This group is moving quickly and with purpose towards becoming a significant contributor to total Company top line and bottom line growth in five years or less.

Turning to our final growth pillar, we look at M&A opportunities in three categories. First small fill-in acquisitions in current markets to help build our portfolio and provide incremental top line growth. We've had a number of recent successes in this area over the past several years including Creemore and Granville Island in Canada and Cobra in the UK all of which I might say are exceeding our initial expectations. Most recently we completed the Sharp's acquisitions in the first quarter and after only a few months we saw sales already more positive than our original forecasts.

Second, we will invest selectively in international markets as we did most recently with our new Si'hai JV in China and that is also progressing well in its early days. And third, large scale M&A. Regardless of the size or nature of the growth opportunity we have a disciplined process around evaluating each of these and we're determined to make the very best use of every dollar of cash that we generate. So with those highlights of our performance against our strategic growth pillars I'll turn it over to Stewart to give first quarter financial highlights and the outlook for the balance of 2011. Stewart.

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

Thanks, Peter, and hello, everyone. I'll start with the first quarter financial highlights. Worldwide beer volume for Molson Coors declined 1.5% driven by industry volume, weakness in Canada, the US and the UK. Nonetheless the total Company net sales increased 4.4% due to foreign currency movements along with positive pricing and sales mix. Net sales per hectoliter increased 6.6% in the quarter. On the bottom line underlying after tax income of \$81.6 million or \$0.43 per diluted share was 17% higher than a year ago driven by positive pricing and continued cost reductions this year.

We grew operating and pre-tax margins in our US, UK and international businesses which drove total Company operating pre-tax and after tax margin expansion of more than 100 basis points in the quarter. Delivering strong earnings growth in the face of substantial economic and industry headwinds bodes well for our ability to do even better when conditions improve. It is important to note that our first quarter underlying earnings include some non-core gains, losses and expenses that net to zero on a pre-tax basis. These adjustments to our US GAAP results are described in detail in the release -- in the earnings release we distributed this morning.

In segment performance highlights starting with Canada underlying pre-tax income decreased 3.2% to \$54.4 million in the first quarter. Increased pricing, overhead reductions and favorable foreign currency were more than offset by mid-single digit volume declines in input inflation. Due to weak industry conditions this year and cycling the 2010 Winter Olympics, our Canada sales to retail or STRs for the first quarter decreased 6.9%. This represents a market share decline of approximately 0.5 point from a year ago which was gained by smaller brewers primarily through increased price discounting. Net sales per hectoliter increased 1.8% in local currency due to continued positive pricing.

Cost of goods sold per hectoliter increased 3.1% in local currency driven -- largely driven by higher commodity fuel and distribution costs as well as fixed costs deleveraging from lower volumes. Marketing, general and administrative expense decreased in the quarter due to lower overhead expenses and the release of an indirect tax reserve.



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Moving to our US segment, underlying pre-tax income increased 7.6% to \$101.8 million in the first quarter driven by continued positive pricing, favorable brand mix, strong cost management and the receipt of a one time payment by Miller Coors. Domestic STRs decreased 1.4% in the quarter. Domestic net revenue per hectoliter for Miller Coors which excludes contract brewing and Company-owned distributor sales increased 2.1% in the quarter.

Meanwhile cost of goods sold per hectoliter increased 1.2% with higher freight and fuel inflation partially offset by cost reductions. MG&A expenses decreased 1.3% due to a one time payment from a third party. In our UK business first quarter underlying pre-tax income more than doubled to \$4.6 million driven by a decrease in defined benefit pension expense and higher pricing partly offset by lower volumes and higher cost of goods sold. While further British pound appreciated 4% against the US dollar, this had no significant effect on pre-tax earnings. STRs decreased 1.6% which is better than the 4% decline for the industry implying a slight market share gain for our UK business.

Owned brand net sales per hectoliter increased 10% in local currency driven by positive pricing and sales mix in the quarter, especially the addition of the Modelo brands. Owned brand cost of goods sold per hectoliter increased 13% in local currency with two-thirds of the change due to the addition of the Modelo brands along with higher cost channel mix, mix cost deleverage and input inflation. Meanwhile marketing, general and administrative expenses in the UK were unchanged in local currency. The international corporate segment posted an underlying loss of \$62.3 million pre-tax in the first quarter, 5.3% less than a year ago. This improvement was due to a \$5.8 million decrease in corporate expense partially offset by \$2.3 million higher spending to accelerate international growth.

Now beyond operating performance, total debt at the end of the first quarter was \$2 billion and cash and cash equivalents totaled \$1.1 billion resulting in net debt of \$0.9 billion. Our cash balances were \$136 million lower than at year-end because we are in our seasonal cash use time of year. Looking forward we have not changed our 2011 guidance for effective tax rate, total Company spending or for MG&A expenses in the corporate and international market segments. Refer to our last earnings call for our last guidance regarding these methods.

In terms of revised guidance, we now expect full year corporate interest expense to be approximately \$115 million based on current foreign exchange rates down from \$120 million on our last earnings call.

With regard to cash uses we now anticipate cash distributions to our defined benefit pension plans of about \$60 million this year including our portion of Miller Coors and Canada JV contributions. In the area of cost outlook by business, in Canada we now expect our full year 2011 owned brand cost of goods sold per hectoliter excluding the cost of contract brewing to increase at a low single digit rate in local currency driven by commodity inflation and fixed cost deleverage related to lower volumes, particularly in the first quarter. Including the effect of our contract brewing arrangement with North American breweries, we still expect cost of goods sold per hectoliter to increase at a mid-single digit rate in local currency. Note that this cost -- that this contract brewing arrangement will also increase net sales per hectoliter this year.

In the UK we now expect 2011 all in cost of goods per hectoliter to increase at a mid-single digit rate in local currency. Excluding the impact of factored brands and contract production of other brewers' products neither of which are included in our beer volumes, we expect our 2011 owned brand cost of goods per hectoliter to increase at a low double digit rate in local currency. This increase is driven by product mix related to adding the Modelo brands which increased both net sales and cost of goods sold per hectoliter and are treated by us as owned brands. Other drivers include input cost inflation offset by cost savings and lower pension costs.

In the US we now expect Miller Coors COGS per hectoliter to increase at a low single digit rate in 2011 due to significant recent increases in freight and fuel costs.

In all of our businesses we hedge a significant portion of our commodity inputs generally over a one to three year range to reduce the impact of commodity volatility on our financial results in the short term. Nonetheless we expect significant cost



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challenges this year from volatility in freight, fuel and the unhedged portion of our commodity inputs. At this point I'll turn it back over to Peter for a regional outlook, wrap-up and the Q&A. Peter?

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

Thanks. So by way of regional outlook. In Canada we're leveraging our new product launches by expanding Molson M in the western provinces to complete a national footprint of the successful brand. We also completed the national rollout of Molson Canadian 67 by introducing this brand into Quebec. We now endeavour to continue to own the low calorie beer segment, last month we launched the new flavor variant Molson Canadian 67 Sublime which delivers a refreshing twist of lemon and lime flavor while still leveraging our low calorie platform.

We also expanded Keystone Lager into Ontario this year based on the success this brand has enjoyed since last year's launch in the western provinces. We continue to develop and introduce innovative ways to drive consumer relevance and excitement behind Coors Light and our Molson brands. In particular we are partnering with the NHL to provide Molson Canadian with new and exciting growth opportunities across North America.

From an operations perspective we expect Canada financial results to benefit from the ramp-up of the NAB contract brewing arrangement in the balance of this year which also helps mitigate increasing inflationary pressure on our cost base.

In the US as we move into the key summer selling season, we will continue our keen focus on premium lights and crafts and imports. Execution and distribution will continue to be major focus areas for 2011 and we will invest heavily behind our programs including multi-cultural outreach. We also remain focused on core brand innovations. This summer we will launch Coors Light super cold activation packaging which lets customers know when the beer is not just cold but super cold. Miller Lite will continue its taste positioning by asking consumers to Man Up with new TV spots being faced during prime sports programs. We'll have a strong focus on Hispanic soccer with Miller Lite sponsorship of the Gold Cup tournament and the introduction of the Chivas Mexican team sponsorship.

You'll also see more excitement around MGD 64 this summer with people who drink MGD 64 Lemonade. We will continue to drive craft and import growth with Tenth and Blake. We expect to see continued growth in the seasonal release of Leinenkugel Summer Shandy. Later this month, the brand will launch a summer sampler can pack making Tenth and Blake the first major craft brewer to launch a variety pack in cans and we will continue to increase Blue Moon momentum with additional television and focus on seasonals.

In the UK the team continues to make substantial progress in improving underlying profitability to our value add value strategy. During the first quarter we grew market share slightly while achieving pricing growth.

Our agreement to distribute Corona and other Modelo brands became fully operational in the first quarter when we commenced distribution of brands from our recently acquired Sharp's Brewery. Along with brand building and innovation work on our current portfolio, we expect the addition of the Modelo and Sharp brands to help us drive improved volume and market share gains in the UK.

In the second quarter UK volume and earnings comparisons will be challenging due to the cycling of the FIFA World Cup in 2010 which drove industry volumes plus 13% and our UK volumes plus 17% in the month of June.

Following the World Cup industry volumes declined 16% in July of last year which will make for easier year on year comparisons in the third quarter of this year. Our international business -- in our international business we continue to invest in new markets to drive top and bottom line growth so that this business can be a significant driver of Molson Coors' growth in five years or less. As we mentioned last quarter, we expect incremental 2011 investments across several markets to total approximately \$25



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million to \$30 million on the MG&A line including adding our Modelo brands in Japan and the joint venture in China to our results. Our expectation is that these new investments as a group will be offset by volume and gross profit increases in 2011.

Following on the most recent volume trends for each of our businesses in the second quarter, in Canada our sales to retail for the four weeks ended April the 23rd decreased slightly. For the same -- in the US -- sorry, for the same four-week period our UK STRs have increased at a low single digit rate due to the benefit of Easter holiday timing this year. In the US for the four weeks ended April 23rd Miller Coors STRs declined at a mid-single digit rate. During this period our market share measured in Nielsen scanner data continued to be positive. As always, please keep in mind that these numbers represent only a small portion of the second quarter and trends could change in the weeks ahead.

To summarize our discussion today, our first quarter results reflect solid net sales, earnings growth and margin expansion despite sluggish economies in our core markets and accelerating global commodity inflation. Our financial performance in the quarter benefited from strong brands supported by substantial investment in innovation, continued positive pricing and cost reductions. These results reflect progress against our three growth pillars of maximizing the value of our core markets, increasing our exposure to emerging markets and taking advantage of smart M&A opportunities. Our growth strategy is generating value for the business today and will have an even greater impact as economic conditions improve.

At Molson Coors we have a strong team focused on growing this business, realizing our vision of becoming a top global brewer in profitability, and delivering 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 PM Eastern time today Dave Dunnewald will host a follow-up conference call which is an opportunity for you to ask additional questions regarding our quarterly results. That call will also be available for you to hear by webcast on our website. So at this point, Alicia, we would like to open it up to you for questions, please.

Operator

Absolutely.

QUESTIONS AND ANSWERS**Operator**

(Operator Instructions) Our first question comes from the line of Judy Hong with Goldman Sachs. Your line is open.

Judy Hong - Goldman Sachs - Analyst

Thank you. Good morning, everyone. In terms of the Canadian market, it sounds like Q1 volume trend was pretty weak, understand that there's the Olympic comparisons, but can you just give us a little bit more color in terms of the industry trends and in Q1 and then it looks like you saw a pick up in April with your STR down only slightly. So maybe just give us a little bit of color in terms of what then drove the improvement in April versus Q1.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Hey, Julie, it's Dave Perkins. Thanks for the question. Q1 was heavily impacted by cycling the Olympics as you mentioned from last year and we're continuing to feel economic pressures. I think including the increase in gas prices that we've seen over the last few months we haven't had particularly good weather to date in Canada. I think that's an impact as well, but really the two



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factors are cycling the Olympics and the economic pressures. It's tough to give you much color on April. We have some benefit from Easter timing, but we've also got the offset of what has continued to be quite weak weather and so we also don't have insight into, industry volume relative to share. But, certainly we're feeling better about what we are seeing in April than what we saw in the first quarter.

Judy Hong - *Goldman Sachs - Analyst*

Okay, thanks. Can you just maybe give us a little bit of your perspective just in terms of your market share performance in light of stepped up competition from some of the smaller brands. What are you doing to basically regain some of that market share back? Are you seeing heightened competitive activity from some of those smaller brands as you guide into the second quarter as well?

Dave Perkins - *Molson Coors Brewing Company - Pres., CEO Molson Coors*

Yes. The context there, Judy, over the last 18 months, as you know, we've been focused on strengthening our portfolio and we've had programs behind our core brands to renew those. We've had a pretty aggressive innovation agenda and we invested to become price competitive in the market. As a result of that, we saw strong share growth last year that we felt very good about. Over the last three quarters we've been flexing the strength of that portfolio to restore our revenue growth and what we've seen in the first quarter is quite encouraging in the sense that we saw about 3% increase through pricing which helped offset about 1 point of mix headwinds for us.

So that felt good. There's no question that where we increased our NSR per hectoliter we did see some share decline to the smaller, national and regional brewers who appear to have stepped up their discounting. So as we go forward we'll -- we're going to have our continued aggression behind innovation, behind our core brand renewal and we'll continue to watch the price and volume balance to ensure that we're allowing our strategic brands to deliver what they need to deliver for us.

Judy Hong - *Goldman Sachs - Analyst*

Okay. And then just broadly speaking on the cost side of the business, I guess the freight and fuel costs have been pretty volatile here. Stewart, is there any way you can give us some perspective on how much of your costs are covered or hedged and how much of that sort of is freight and fuel cost volatility could impact your low single digits, I guess, underlying cost guidance for Miller Coors and then, I guess, mid-single digit for Canada?

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

Yes. So, Judy, we really don't for competitive reasons give out a great amount of detail on our hedging. As I've shared in the past these hedging programs obviously have a lot more hedged in the more immediate periods than in the later periods and do basically span a period of years. We've taken into account our -- the current cost situation and what we're seeing in commodity pricing in terms of giving you that guidance and that's the reason we give the guidance is to just try to make that a little bit easier for you. So for the moment I would rely on that and to the extent that we see any changes then we'll update you next quarter. I will say that if you just looked at where commodities are currently, they're pretty high prices relative to what we've seen in the last 12 months and so you'd have to expect a lot more increase in order to see those -- that inflation number moving around.

Judy Hong - *Goldman Sachs - Analyst*

Okay.



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Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

And, Judy, can I just clarify the number you quoted for Canada COGS. You said mid-single digits. Just recognize that as with the NAB impact factored into that, what we're, in fact, seeing is low single digit without the NAB impact in there.

Judy Hong - Goldman Sachs - Analyst

Right. And you also, Dave, talked about the NAB benefit that you would get as the year progresses which sounds like maybe you get them after on the costs on the margin side.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Yes. There are two impacts from NAB. One will be some volume leverage benefit and the other will be a margin benefit, income benefit.

Judy Hong - Goldman Sachs - Analyst

Got it. All right, thank you.

Operator

Our next question comes from the line of Kaumil Gajrawala with UBS. Your line is open.

Kaumil Gajrawala - UBS - Analyst

Hey, guys, just to make sure I fully understand the STRs in North America. So it's your number till 4/23, there may or may not be a little bit of Easter effect in there? Easter, obviously being the day afterwards. Could we assume that it's mostly covered in that?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Yes. In the case of Canada through to April 23, there would be some Easter benefit in there. Easter in Canada, we don't estimate to be a huge beer event or beer occasion, but it does have some impact.

Kaumil Gajrawala - UBS - Analyst

And then also just sticking with Canada because last year with the Olympics you were also the official sponsor and such. Can we maybe say that the shared loss this quarter versus what last year looked like, is that perhaps maybe the share gains were artificially high last year?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Well, in the first quarter of last year I believe we gained about 0.5 a share point which is similar to what we've given up this quarter. Certainly we would have had some share benefit last year from our position within the Olympics, but I think there are the two factors that play into this. One is the Olympic effect and the other is increased discounting, what appears to be increased discounting by the smaller brewers and I think they both play into this and if you ask me to weight them, I'd put a higher weight on the pricing strategy or the pricing that we're seeing from the smaller brewers.



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Kaumil Gajrawala - UBS - Analyst

Got it. And then the western provinces, are there any legal minimums or such that we're close to?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

There are minimum prices in three of the western provinces and there are brands at those legal minimums. The mainstream brands, Molson Canadian Coors Light would tend to be quite a bit above those minimum prices.

Kaumil Gajrawala - UBS - Analyst

Okay, got it. Thank you.

Operator

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

Dara Mohsenian - JPMorgan Chase & Co. - Analyst

Good morning, guys. Tom, I was hoping you could give us a bit of an overview of the US business and just your perspective on if we should see some tweaks in strategy here with your leadership of the business and what the key areas you'll be focused on going forward.

Tom Long - Molson Coors Brewing Co - President and Chief Commercial Officer

Yes, thanks. We have put in a really firm foundation for our Company here and our focus on organic growth that we outlined to our entire system including our distributors recently is a focus of our strategy going forward. So fundamentally our job is to keep driving brand equity in the marketplace, drive cost management and drive forward to organic growth as we've stated. So I wouldn't plan to make fundamental changes in that. We'd just look to accelerate our capability to deliver.

Dara Mohsenian - JPMorgan Chase & Co. - Analyst

Okay. Thanks. And, Dave, I want to turn back to Canada for a minute. Can you just give us an update on if you're expecting to gain market share in Canada this full year? Is it realistic given the Q1 share loss and the robust innovation contribution from last year as well as the discounting from the smaller brewers?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Obviously couldn't give guidance on what I think our share will be. What I would say is we're very much focused on continuing to build the strength of our portfolio. I like our innovation program that's coming up for the summer. As Peter talked about, Molson M has gone into Ontario in the West, Canadian 67 into Quebec. We've got two new flavored entries with 67 Sublime and Miller Chill lemon and a little bit beyond that that we'll be putting into the market. So I feel good about what's going in. Some interesting programming behind Molson Canadian for the summer as well, which I think consumers will respond well to.



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Dara Mohsenian - JPMorgan Chase & Co. - Analyst

Okay. And are you expecting the innovation contribution to be less in 2011 than it was in 2010?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

We're continuing to see innovation delivering in between two and three Share Points in our business and so it feels like a good solid contribution. I have not seen that tailing off at all.

Dara Mohsenian - JPMorgan Chase & Co. - Analyst

Okay. And then just on the pricing front you obviously indicated that some of the smaller brewers are discounting more aggressively. What are you seeing from your main competitor in the marketplace and maybe if you could just give us a bit of a review on pricing by region.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Well, I think the major difference I see in the environment relative to before is really what I've commented on the smaller brewers. I think the pricing environment generally is quite stable with that exception and we've seen some selective price increases and general price increases go through in various markets and seemed to be sticking. So--.

Dara Mohsenian - JPMorgan Chase & Co. - Analyst

Okay. Thanks so much.

Operator

Our next question comes from the line of Christine Farkas with Bank of America Merrill Lynch. Your line is open.

Christine Farkas - BofA Merrill Lynch - Analyst

Thank you very much. If I could start with a couple questions for Mark. In the UK can you tell us either for the quarter or perhaps for the year how much you expect the Modelo and Sharp's brands will add to your volume?

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

Hi, Christine, yes. All other things being equal we would expect about 1 share point. Obviously you got a net from that the reduction in the same store brands which the Modelo brands replace, gross level about 1 share point overall.

Christine Farkas - BofA Merrill Lynch - Analyst

Share point in the marketplace versus points to your volume growth correct?

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

Yes.



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Christine Farkas - BofA Merrill Lynch - Analyst

Okay. And then sticking with the UK there's a comment in the press release that suggested the British pound appreciation did not impact the pre-tax for the segment. Can you just tell us why that is?

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

Sure. Stewart, do you want to take that?

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

Yes. I mean the answer is there's a 4% appreciation but the earnings for the quarter are so small that it's not material. It's not worth really flagging that.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay, okay. So it's not that there was an offset on some other line.

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

No.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay. And then just moving to Canada, Dave, you talked about what I understand to be the full rate or front line rate up 3% offset by about 1 point of mix. The press release indicated 3% on key brands, but your whole portfolio saw in aggregate 3 points of rate increase?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

In aggregate, yes. NSR per hectoliter was up 3% offset by 1 point of mixed headwind and I'll just give you the clarification that in that increase there is reduction in dealing back or in special offers to the consumers as well. So it's a combination of some front line price increases, general price increases and reduced deal back.

Christine Farkas - BofA Merrill Lynch - Analyst

And your comments about price increases going through in selected markets, was that a first quarter comment or pricing since your first quarter has been reported, since the end of your first quarter?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

There are two provinces in which we saw change in the first quarter and one that has gone through in -- since the beginning of the second quarter.



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Christine Farkas - BofA Merrill Lynch - Analyst

Okay. And roughly while we don't know what would be dealt back or how the environment looks, what kind of price increases are you seeing?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Well, for instance, in Quebec at the beginning of April the minimum price would have gone up about 1.8% in line with the CPI.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

And in the west the increases tend to be in line with CPI as well.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay. Great. And then in Canada as well there was a help to the MG&A line that was described as a release of an indirect tax reserve. Is that a one-time -- does that reverse later or can you quantify perhaps how much that helped Canada?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Yes. It's not an ongoing benefit, so it was in the quarter and it was -- it accounts for about two-thirds of the favorability that you've seen on our MG&A for the quarter.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay. That's helpful. Lastly, Peter, for you there was a mention about a small impact from a total return swap on Foster's. I thought maybe or I was under the impression that was no longer a factor. Can you just help us out. What's left or what's on your accounting statements regarding that swap?

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

Sure. I'll delegate that one to Stewart because he'll give you the correct answer, Christine.

Christine Farkas - BofA Merrill Lynch - Analyst

Great.

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

Christine, we finally settled the swap as you know last year we entered into a number of instruments to try to lock out some of the gain and the final settlements took place in the first quarter and that's what you're seeing here flowing through the numbers.



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Christine Farkas - BofA Merrill Lynch - Analyst

Okay. So we won't see anything going forward?

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

You will not. That swap is now gone.

Christine Farkas - BofA Merrill Lynch - Analyst

All right. Thank you very much.

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

Thanks, Christine.

Operator

Our next question comes from the line of John Boshier with JPMorgan. Your line is open.

John Boshier - JPMorgan - Analyst

Thank you. Wanted to follow up on the Canada trends a little bit. If we take a look at the first half of last year and realizing there was a benefit from the Olympics, even so the two-year stacked run rate on STRs -- or not the run rate but the two-year stacked total you showed volume growth on a two-year basis. The last couple of quarters volume is down on a two-year basis and this quarter was basically in line with the back half of the year. So adjusting for the comps it looks as though the last nine months have been weaker. Can you talk a little bit, are you seeing -- is this just the continued economic stuff? Was it just the new products were so much more successful in the first half of last year? I'm trying to figure out why that two-year trend has decelerated and kind of when you think from your perspective that can get back to positive. Thanks.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

And, John, you're talking about the industry category volume, right?

John Boshier - JPMorgan - Analyst

Well, yes. I mean I think it actually works out the same for you guys or the industry from that standpoint. I'm not sure it really makes a dramatic difference one way or the other.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Okay. Let me just comment, then, on the category trends. If you take out the Olympic quarter, so Q1 of 2010, generally what we've been seeing in the surrounding quarters is volume decline in the 1.5% to 2% range. So, without any abnormal quarters that's what we seem to be seeing. We believe that the bulk of that is economic circumstances and as to when that will improve, I mean it's impossible to say. We just -- we get our portfolio into shape, but when that does improve, we'll be a big beneficiary of it. Does that help?



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John Boshier - JPMorgan - Analyst

It does, I guess. It wasn't just the first quarter last year, though. It was also the second quarter and so again do you think maybe that was just again that extra new product activity that drove it?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Yes. I think there was a couple of factors. One is there were some larger pack sizes that were being marketed in certain provinces like Ontario, 28-packs that were quite aggressively sold and we think that did have some benefit to industry volume. Weather last year through the summer was quite incredible here which probably also had some impact. So there's a lot of noise in what's going on in the industry, but I think the underlying trend that we're feeling appears to be economic factors.

John Boshier - JPMorgan - Analyst

Okay. I'm sorry. Go ahead.

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

John. It's Peter Swinburn, just to expand on that a little bit, if you try and track it a bit further back and look at the trends across the whole of North America, then volume trends in Canada and the US fell off around about the same time and tracked each other. The first quarter of last year and the second quarter of last year were I won't say aberrations, but they certainly were where the trends separated to the benefit of Canada, but then the Canadian trend got back in line with the overall American trend. So it does look like the overall North American trend is pretty similar, but for some reasons the first and second quarter, obviously the first quarter because the Olympics, but first and second quarter of last year Canada were for some reason more beneficial.

John Boshier - JPMorgan - Analyst

Got it. So a little less decoupling now is probably the right way to look at it?

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

Exactly.

John Boshier - JPMorgan - Analyst

Okay. Thank you.

Operator

(Operator Instructions) Our next question comes from the line of James Watson with HSBC. Your line is open.

James Watson - HSBC - Analyst

Good morning, everyone.



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

Good morning, James.

James Watson - HSBC - Analyst

A couple quick follow ups on Canada, just if you could give a little more color on the negative sales mix in the quarter, I just wanted to know where that came from and if that was related to the share loss to smaller competitors which -- although I assume that would be in the low end of the market.

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

The mix impact that we saw, James, was really the launch of Keystone, Keystone Light last year and so it's the impact of that in our mix. As we've strengthened our position in the value segment of the business, we've had that mix impact.

James Watson - HSBC - Analyst

And across Canada are you seeing a difference in the volume growth trends between the high end -- the mainstream and the low end?

Dave Perkins - Molson Coors Brewing Company - Pres., CEO Molson Coors

Yes. I mean the value category performance does vary. The absolute size of the category, the penetration as a category varies. It is higher in the west than it is in the balance of the country. It's lower in Quebec because so much beer is sold at minimum price there. The growth trends that we see would tend to be higher in the west and again lower in Quebec, Ontario in the middle.

James Watson - HSBC - Analyst

Great. Thank you. And just on in the UK I was wondering if you could just talk about the performance if we stripped out the addition of Modelo and the reduced pension expense in the quarter, how the UK's performance would have compared to last year.

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

Hi, James. When you say the UK performance, at what level? On which metric?

James Watson - HSBC - Analyst

Operating income.

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

At an operating income level the benefit from pensions has given us a swing of about GBP4 million in the quarter. So we call that a full year benefit in New York and what we're seeing is that phase through on a quarterly basis.



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James Watson - HSBC - Analyst

Okay, and Modelo didn't trickle down to the bottom line?

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

It would, James, but we wouldn't comment on that specifically.

James Watson - HSBC - Analyst

Okay. That's fine. And just a question, broader question on pricing in the UK, I mean you guys were up excluding Modelo about 5% it looked like this quarter and that was coming off of a large increase 1Q '10 and even before that. Just how are you guys getting these large increases in pricing? Where is it coming from and how sustainable is that over the long term to keep taking this sort of large price increases?

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

What we've seen there, James, is we saw very clearly a value ahead of volume strategy just about three years ago because of the downward pressure on industry volumes. We've now had actually 17 consecutive quarters of pricing growth and that's fundamentally being around the quality of our negotiations with our major customers and our own -- the quality of our promotional plans that we're developing with our customers. So I don't think you'll see going forward the kind of double-digit pricing increases that we've seen over the last couple of years, but clearly driving value in a market which continues to slide in volume is a key priority for us as an organization as we continue also to manage our costs very effectively in the business.

James Watson - HSBC - Analyst

Have the competitors followed at the same level of pricing increases or has there been a big change in the price gap?

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

At retail there's been very little change. Our pricing that we're commenting on clearly is our NSR or cost pricing in to our customers and I can't comment on what our competitors have been doing or not doing in that area.

James Watson - HSBC - Analyst

Great. Thank you very much for your help.

Mark Hunter - Molson Coors Brewing Company - Pres., CEO Molson Coors

No problem.

Operator

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

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Mark Swartzberg - *Stifel Nicolaus - Analyst*

Yes, thanks. Hey, guys. A few questions on the COGS you had, Stewart. I guess firstly, your expectation for COGS increases has come up versus where it was when you reported the fourth quarter, but doesn't look like it's come up all that much. Do you think that's a function of the hedges you've got in place or more a function of simply the basket of your commodities? And then I had a follow-up.

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

Yes. It's really a function of the hedges, Mark. Obviously, our cost programs are offsetting, but they would have been there already.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

So in other words, hedges rolling off, COGS staying where we are, we're going to see probably an accelerating increase come '12?

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

You've got to remember that our hedging problem is a rolling program. It will depend on where pricing is. We saw a very rapid rise in the price of fuel. That could just as easily go the other way. I think if you looked at metals prices over the last couple years, there's been tremendous volatility there. I don't know where price is going to go next year, but what I do know is that our hedging program is beneficial from the perspective that it smoothes those changes over time.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay. And then glass specifically looks like there's some shortages there. How are you seeing your glass costs today versus when you reported fourth quarter? Is that shortage affecting your costs there? What's going on with that component of your costs?

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

No, Mark. We haven't seen any dramatic impact on our business from any glass shortages. We certainly haven't -- we don't break out our COGS publicly like that, but can I just tell you with respect to glass we haven't seen a major impact from any shortages.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

And availability of supply on glass, how do you feel about that versus rest of the year?

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

We feel very positive.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Good, great. Thank you.



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Operator

We have no further questions at the time. I'll turn the call back over to the presenters.

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

Thank you very much, Alicia, and thank you, everybody, for your interest in the Company. We look forward to speaking to you again at the end of the next quarter.

Operator

And this concludes today's conference call. You may now disconnect.

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