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TAP - Q4 2013 Molson Coors Brewing Company Earnings Conference Call

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OVERVIEW:

TAP reported 4Q13 underlying pre-tax earnings of $163.9m.

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PRESENTATION

Operator

Welcome to the Molson Coors Brewing Company Fourth 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 factors that could affect these projections. The Company does not undertake to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise.

You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Regarding any non-US GAAP measures that may be discussed during the call and from time to time by the Company's executives in discussing the company's performance, please visit the Company's website, www.MolsonCoors.com, and click on the financial reporting tab of the Investor Relations page for a reconciliation of these measures to the nearest US GAAP results. Also, unless otherwise indicated, all financial results the Company discusses are versus the comparable prior-year period and in US dollars. Now, I would like to turn the call over to Peter Swinburn, the President and CEO of Molson Coors.

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

Thank you, Rob. Hello, everybody, and welcome to the Molson Coors earnings call. Thank you for joining us today. With me on the call this morning are Gavin Hattersley, Molson Coors's 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 and People Officer, and Dave Dunnewald, Molson Coors' VP of Investor Relations. On the call today, Gavin and I will take you through highlights of our fourth quarter 2013 results for Molson Coors Brewing Company, along with some perspective on 2014. In the fourth quarter, Molson Coors increased underlying pre-tax earnings 6.5%, expanded pre-tax margins, and generated substantial underlying EBITDA and free cash flow. Underlying after-tax income declined less than 1%, due to a higher tax rate in the quarter.

For full-year 2013, we grew underlying after-tax earnings and EBITDA and exceeded our targets for cash, for cost savings, cash generation, and debt reduction. Our focus on building our core brands, growing the above-premium segment of our portfolio, and driving sales revenue from innovation was instrumental in delivering these results. Coors Light grew more than 30% last year in the UK, where it is now our second biggest brand. In Mexico and in Latin American markets, it grew even faster. Coors Light also gained segment share in the US, but underperformed in Canada; an issue in which we will focus in 2014. Miller Lite remains a challenge in the US. Carling, the UK's number one brand, reaffirmed its leading position by growing both volume and share in the soft UK market.

Our reinvigorated Molson Canadian brand increased both volume and share in Canada in 2013. Meanwhile, Coors Banquet achieved its seventh year of growth in the US and has sold well ahead of expectations across Canada, following its launch there in the third quarter. Staropramen grew share in its home Czech market and increased volume by strong double digits in the rest of our European business. Our brands grew share in Bulgaria and achieved record shares in Croatia and Czech Republic. In the second half of the year, we returned Romania to share growth as well. The loss of share in Serbia is being addressed by a new management team and the loss in Hungary was planned as we gave up low margin private label production. We grew our above-premium brands at a double-digit rate globally, contributing to mix-related NSR [effectively] to growth of 1.4% in the US and 1% in Europe, on a comparable basis in [local] currency.

We continue to learn and progress in the craft sector through Tenth and Blake in the US and Six Pints in Canada. As a result, we accounted for 29% of the 2013 craft beer growth in the United States, according to Nielsen, and we saw our Six Pints volume in Canada increase nearly 13%. Finally, our innovation pipeline had its best year so far and delivered nearly 6% of global net sales. Our focus on innovation remains a top priority, as we extend the reach of our portfolio to bring in new drinkers to our brands. In summary, our overall brand performance was strong and strategically, we are gaining momentum in the areas that will have the most impact on our financial results as markets begin to improve. Regionally, we grew US 2013 pre-tax earnings on the strength of positive net pricing, strong sales mix, and significant cost reductions. Although overall industry volume declined, we held share in the premium light segment according to Nielsen and we led the industry in above-premium share growth.

Our above-premium portfolio now represents nearly 14% of our total net revenue, up more than 3 percentage points from 2012. In Canada, we gained share in the value segment, which has been a source of share loss for some years, and we delivered strong cash and cost savings results, but overall performance was poor. We are reducing our cost base in the same way as we did in the United Kingdom and as a result, we will be increasing our capital spend in Canada by approximately CAD40 million this year, with resulting benefits begin to accrue in 2015. As in the UK, we expect to reinvest most of this benefit back into our brands. In Europe, as well as the brand performances already mentioned, we also delivered growth in net pricing, earnings, and cash flow. Underlying income grew at double-digit rates for the fourth quarter and the full year. As in North America, our craft business is performing well and posted record volumes, with Doom Bar becoming the biggest selling cask ale in the United Kingdom on premise channel.

Our International business rationalized its cost base and migrated sales mix toward more profitable business in 2013. As a result, we reduced the underlying International loss by nearly half versus 2012 and are on track to our goal of profitability by 2013. Internationally, the portfolio is led by Coors Light, but has been reinforced by Staropramen and increasingly, Blue Moon with Carling being used tactically. Overall, in 2013, our US business improved results, especially late in the year, Europe performed well in a difficult environment, Canada struggled, and International made significant progress toward its goal of profitability by 2016. Now I will turn it over to Gavin to give fourth quarter highlights and a prospective of 2014. Gavin?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Thank you, Peter. Hi, everyone. Molson Coors' fourth quarter underlying pre-tax earnings increased 6.5% to $163.9 million, driven by higher earnings in the United States and Europe, along with reduced underlying interest expense. These positive factors were partially offset by lower performance in Canada and International. Underlying after-tax income decreased 0.2% to $125.8 million or $0.68 per share, driven by our higher underlying tax rate this year. Our fourth quarter tax rate of 23% was higher than expected, due to an out of period adjustment of $12 million in uncertain tax positions related to prior years. This adjustment increased our fourth quarter underlying tax rate by approximately 7 percentage points.

Foreign exchange movements had no significant net impact on pre-tax results in the quarter. Worldwide beer volume for Molson Coors increased 0.1%, due to higher volume in Canada and Europe, offset by lower volume in the US and International. In the fourth quarter, our US GAAP after-tax income more than doubled to $131.2 million, due to a lower US GAAP tax rate, higher non-core gains, and higher pre-tax earnings in the US and Europe. These positive factors were partially offset by the impairment of our Miller brands distribution contract in Canada and one-time Tradeteam contract termination fees in Europe. As we have in previous quarters, I will provide an overview of our results with MillerCoors presented as if it were proportionately consolidated. This is a non-GAAP approach, but we believe it provides a useful view of some key performance metrics for our business. On this basis, total Company net sales increased 0.3% from the prior year, as higher volume and positive pricing and mix were largely offset by unfavorable foreign currency movements.

On a per hectoliter basis, net sales increased 0.1%, driven by pricing growth across all regions and improved mix in the United States. Underlying cost of goods sold, per hectoliter increased 0.4%, due to higher cost per hectoliter in the US and International. Total Company gross margin was 37.4%, 10 basis points lower than a year ago; primarily due to gross margin contraction in the US and International, partially offset by gross margin expansion in Europe and Canada. Underlying marketing, general and administrative expenses increased 0.4%, driven by increases in Canada and Europe and partially offset by declines in the US. Underlying operating margin was 10.9%, down 10 basis points from a year ago, due to margin contraction in Canada and International, which more than offset improvement in the US. For the full year, we increased proportionate consolidated operating income 2.3% to $1.03 billion on an underlying basis, driven by income growth in the Europe and US and lower losses in International. Our underlying EBITDA, or earnings before interest, taxes, depreciation and amortization, was $313.8 million in the fourth quarter; 2.4% higher than a year ago.

For the full year, underlying EBITDA grew 5.1% to $1.47 billion. See the earnings deliberated earlier this morning for a detailed review of our business unit financial results for the quarter. Also important to note that our fourth quarter underlying results exclude some special and other non-core gains, losses and expenses that net to an $18.6 million pre-tax charge. These exclusions from our US GAAP results primarily relate to the termination of our Tradeteam distribution joint venture in the United Kingdom and an impairment of our Miller brands' distribution contract in Canada, along with restructuring-related costs in Canada and Europe. These charges were partially offset by gains in the sale of non-core assets. Special and other non-core items are described in detail in this morning's earnings release. In the area of cost savings, we exceeded our 2013 goals by achieving more than $70 million of cost reductions across our Company versus our goal of $40 million to $60 million for at least a five-year period, beginning last year.

These cost reductions came primarily from the UK, but we expect cost savings out of the next few years to accelerate in Canada. This result excludes MillerCoors, which provided another $43 million of savings in 2013 at our 42% ownership rate. In the fourth quarter, our Board of Directors approved a resolution to change the Company's fiscal year from a 52-week or 53-week fiscal year to a calendar year. As such, our 2013 fiscal year ended on December 31, 2013, rather than on December 28. This change aligns our fiscal year and interim reporting periods with our central Europe business, as well as MillerCoors; both of which already use a regular Gregorian reporting calendar. The three additional days in fiscal year 2013 did not have a material impact on our consolidated financial results. We also decided to discontinue sales curve accounting for our marketing and sales expense in our Canada, Europe, and International businesses, beginning in 2014.

This change will have no effect on the total amount of annual marketing and sales spending reported, but it will affect the quarterly phasing of the spending. This change in accounting policy will be presented retrospectively, so we will reclassify prior periods to reflect the new treatment. For 2013, the elimination of sales curve accounting is the effect of increasing MG&A expense by approximately $9 million and $15 million for the first and second quarters, respectively, and decreasing these expenses in the third and fourth quarters by approximately $17 million and $7 million, respectively. In the next few weeks, we plan to provide you with specific 2013 quarterly impacts for each of our business units and all the way down to the EPS level for consolidated results. Note that MillerCoors has not used sales curve accounting, so its historical results will not be affected by this change. We are also very pleased that our focus on cash and profit after capital charge resulted in us exceeding our underlying free cash flow goal for 2013, by generating a total of $892 million of free cash; an increase of $27.3 million, or 3.2%, versus 2012. This result exceeded our original guidance for 2013 by almost $200 million and was primarily due to strong working capital management; particularly in Canada and Europe.

Underlying free cash flow in 2013 was made up of the following factors: $1.17 billion of operating cash flow, which includes $539 million from MillerCoors, plus $58 million of net add-backs, many cash paid for restructuring activities. Vested cash outflows were $294 million of capital spending and $41 million of cash invested in MillerCoors. Total debt at the end of 2013 was $3.8 billion and cash and cash equivalents totaled $442 million, resulting in net debt of $3.36 billion; approximately $127 million lower than three months earlier and $687 million lower than a year earlier. For the full year, the fund status of our defined benefit pension plans improved by $448 million, including our portion of the MillerCoors plan. We paid down net out of the money cost currency swap positions totaling $113.9 million. In January, we also paid off the remaining outstanding cost currency swaps for $65.2 million. Part of the credit for our strong cash and debt performance in 2013 goes to efforts to implement our Pack model.

We will continue to drive organizational focus on cash generation, raising the terms on capital and growing total shareholder return. We are also still early in the implementation process for Pack, but we grew TSR in the company in 2013 at a faster rate than other global beer companies and the S&P 500. Also in recognition of the substantial progress we have made in paying down debt, our Board has authorized an increase in our quarterly dividend from $0.32 per share to $0.37 per share beginning in the first quarter. This 16% increase results in an annual dividend amount of $1.48 per share, which represents a payout ratio of 18.4% of 2013 underlying EBITDA. Equally important, I'm pleased to announce that our Company is adopting, for the first time, a dividend payout ratio target of 18% to 22% of prior year underlying EBITDA. We anticipate that linking the dividend payout to our underlying EBITDA, which has been strong and steady for many years, will keep our dividend in a competitive range for global beer companies for the foreseeable future. Looking forward to 2014, our annual target for underlying free cash flow is $700 million, plus or minus 10%.

This goal is $192 million lower than our 2013 results, with two primary factors: higher capital spending driven by efficiency initiatives planned for our Canada supply chain and we will not be able to replicate the tremendous reduction in working capital that we achieved in 2013. We did plan to reduce working capital over time, but not expected at the same rate as last year. Currently, we expect cash contributions to our defined benefit pension plans to be in the range of $60 million to $90 million in 2014, down from $156 million last year. Meanwhile, we anticipate approximately $35 million of pension expense in 2014, down from $52 million last year. Note that all of these pension numbers include our 42% of MillerCoors. The overall funded status of our defined benefit pension benefit plans, again, including MillerCoors, improved 8 percentage points from the a year ago to 92% at the end of 2013. This improvement was driven by contributions globally, strong plan asset returns in Canada and the United Kingdom, and moderate increases in long-term interest rates in 2013.

Our 2014 capital spending outlook is approximately $330 million, up from $297 million last year. We expect our 2014 MG&A expense in corporate to be expect $110 million. Our consolidated net interest expense outlook for 2014 is approximately $145 million. We expect our 2014 underlying effective tax rate to be in the range of 16% to 20%, assuming no further changes in tax laws, settlements of tax audits, or adjustments to our uncertain tax positions. Our 2013 underlying rate was 15%, due to one-time benefits of tax law changes in Canada. We continue to expect our long-term tax rate to be in a range of 20% to 24%, but we anticipate that it will take a few years to move to that range. As far as our cost outlook is concerned, in the United States, we expect MillerCoors cost of goods sold per hectoliter to increase at a low single-digit rate for the full-year 2014. In Canada, we expect our 2014 cost of goods sold to increase at a low single-digit rate per hectoliter in local currency.

In Europe, we anticipate a low single-digit decrease in cost of goods sold per hectoliter this year in local currency. Our International business anticipates costs per hectoliter to increase at a mid-single-digit rate for the full year. In each of our businesses, we anticipate higher costs related to product and packaging innovation. At this point, I'll turn it back over to Peter for outlook, wrap-up, and the Q&A. Peter?

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

Thanks, Gavin. Regionally, in the US, we are addressing the weak market by migrating our portfolio towards the high margin and fast flowing above-premium segment, on the strength of Redd's, Leinenkugel, and Blue Moon. We will also introduce Miller Fortune and Smith & Forge to augment the portfolio. In premium light, the reintroduction of the original Miller Lite can has exceeded our expectations, and will be extended through September. Coors Light will be introducing new packaging designs and a similar blue line extension debuting on Memorial Day. Our product performance in Canada this year will be impacted by our decision to accelerate the termination of the joint venture that controls the Modelo brands in Canada. These brands provided approximately $18 million of pre-tax profit for our Canada business in 2013 and they will only provide two months of income in 2014.

We will, however, be paid CAD17 million of compensation by Anheuser-Busch InBev when it assumes control of these brands on February 28, 2014. Note that this cash inflow will be excluded from our underlying free cash flow for 2014. To become a more competitive business, the Canada team in 2014 will continue the work it started last year to transform and streamline its cost base. They will introduce new advertising and increased activity to improve the performance in Coors Light, along with rolling out our proprietary banquet can for this brand and Molson Canadian. Molson Canadian will also benefit from strong programming led by the Winter Olympics. We will build on the successful launch of Coors Banquet and will accelerate our cost performance through Creemore and Granville Island. In Europe, total industry volume in the markets in which we operate declined more than 3% in 2013, but in those markets, we grew share by nearly 0.5 point.

Some economies in the region are forecast to improve slightly, driven by export trends which will take time to translate into consumer spending, but there will eventually be a benefit to our business. We also expect the continued growth of the value segment and low margin channels and package configurations to be headwinds in 2014. In this challenging market, our strategies for core brands, above-premium, and innovation are driving solid share in most of the region. For 2014, we plan to roll out innovative new packaging and above premium beer mixes and other products to new markets in Europe. Our International business in 2014 will increase its focus on driving top-line growth through Coors Light, Carling, Staropramen, and Blue Moon, along with other brands unique to the international markets. This, together with lower MG&A expense per hectoliter, is expected to deliver a profitable business, as promised, by 2016. Finally, here are the most recent volume trends for each the businesses early in the first quarter.

In the US, for January, STR's decreased low single-digits. For our other businesses in January, on a comparable basis, our sales to retail in Canada decreased at a low single-digit rate. Our sales volume in Europe increased at a mid-single-digit rate. Our International sales volume, including royalty volume, increased at a low single-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. To summarize our discussion today, in 2013, we grew underlying after-tax earnings, EBITDA, and earnings per share. We implemented our profit after capital charge model to our Company to drive focus on the key value drivers in this business. We drove working capital performance Company-wide and exceeded our 2013 free cash flow goal by nearly $200 million.

We overdelivered against our cost savings and we reduced our net debt by nearly $700 million. The funded status of our pension plans improved by $440 million, including our portion of MillerCoors, and we paid down $114 million of cross-currency net liabilities. Particular challenges including Miller Lite in the US and Coors Light in Canada, along with commercial performances in Serbia. Nonetheless, our focus on building our core brands, growing the above-premium segment of our portfolio, and driving sales revenue from innovation delivered significantly improved results in the year. We are gaining momentum in the areas that will have the most impact on our financial results as market begins to improve.

Now, before we start the Q&A portion of the call, a quick comment. Our prepared remarks will be on the website, for your reference, within a couple of hours, this afternoon. Also, at 2:00 PM Eastern Time today, Dave Dunnewald will host a follow-up conference call, which is an opportunity for to you 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, Rob, we would like to open it up to questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Judy Hong, Goldman Sachs.

Judy Hong - *Goldman Sachs - Analyst*

In Canada, it's nice to see you focusing on cutting costs in that market. Just wanted to get a little bit more color, just in terms of your initiatives to reduce your cost base more. If this is beyond sort of that $40 million or $60 million of cost savings target that you have talked about, in the June analyst meeting, you clearly exceeded that number in 2013, so is there just more upside to that number for the next few years, particularly as you focus in the Canadian cost base restructuring?

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

I will take it to a general point, Judy, and I'll pass it on to Gavin for the specific on the cost savings. Yes, I think, it's a well trodden path for us this. We have been through a number of business units; specifically, lately, in the UK. We're very confident that we know what we're doing both in the G&A and a supply chain perspective. It is going to be a three to four-year project for us. We're just flagging, at the moment, the fact that there will be increased capital spend in Canada as we start that journey. Gavin, do you want to pick up the other bit?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Sure, Peter. Judy, the Canada cost savings are included in the $40 million to $60 million guidance that I gave you, which is over the next five years with us expecting to be at the higher end for the first couple of years. In 2013, the balance of those cost savings were predominantly from the United Kingdom and Europe and the balance will shift towards Canada in the years ahead.

Judy Hong - *Goldman Sachs - Analyst*

Okay. Got it. On the dividend payout target that you're setting now, we're at 18.4% of EBITDA, so I guess there is a little bit more room to go to at least the midpoint of that and perhaps more. Can you perhaps help us in terms of, is this going to be more of an annual gradual increase to get to the target? Should we expect to see more of a dividend ramp-up more quickly? Does this impact at all in terms of how you're thinking about the leverage targets or your broader capital allocation strategy in looking at M&A, buyback, et cetera?

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

Obviously, Judy, we have given a range between 18% to 22% and we've done that for a purpose. We're currently at the lower end of that range and our intention would be, obviously, to move up from there. It will vary year by year depending on what other costs we've got on our cash by definition. As far as our debt position is concerned, we are still very much focused on getting to the levels that we promised the rating agencies and that's our first priority. Once we get there, we will then decide with our Board how we best want to allocate whatever cash we might have and that will be consistent with the way that we've done it in the past in terms of looking at our balance sheet, giving (technical difficulty) looking at other opportunities to invest it. I think it will be pretty consistent with the message that we have given you to date.

Judy Hong - *Goldman Sachs - Analyst*

Got it. My last question, just maybe for Stewart, just looking at the Canada market, the volume challenges still remain in that market with the fourth quarter and then January sales to retailers down low single digits. Can you help us understand, from a broader macro perspective, as well as competitive perspective, any changes that you're noticing there? What can you really do to drive Coors Light volume to improve in 2014? How do you think that the competitive environment will really evolve in the near term?

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

Again, I will just take it generally and let Stewart answer the specifics. On the surface the Canadian economy is doing all right, but if you look at the areas where we get 70% of our profit from, which is in Quebec and Ontario, those two markets, actually the GDP of those two markets has been extremely lackluster and the unemployment rate is quite a bit higher than the United States. The specific markets that drive our profit performance have been quite challenged. Coors Light, I think, we didn't pay enough attention to last year. But Stewart, I will pass that over to you to talk about what we are going to do with our brand in 2014.

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

Judy, as it relates to the market, I would just, before I get to Coors Light, just point out that I think we have done a really good job of growing our above-premium brands. We also have seen share gain in both above-premium and value. We're starting to move the ball. Molson Canadian has performed very well against its history. Against Coors Light, as I shared last quarter, we simply have not had enough news and I think if you looked at this year, you'll see better copy coming out and you'll see better activation. Last year, we struggled in our execution and as we've started off this year, we've got TV ad copy running around our vented can innovation, which we shared with you, you'll see new copy coming out in the middle of the year, and then the reinforced efforts around activation.

Judy Hong - *Goldman Sachs - Analyst*

Okay, thank you very much.

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

One thing, Judy, I would just also raise, I should have included this, but Coors Banquet of course, we've relaunched in the market. Peter talked about that in the earnings script. But just in terms of the health of family, in terms of the health of the trademark, Coors Banquet is growing very, very well and we think there's a good halo and working relationship between the two brands.

Judy Hong - *Goldman Sachs - Analyst*

Thanks.

Operator

Ian Shackleton, Nomura.

Ian Shackleton - *Nomura International - Analyst*

You kind of made the point you had a lot savings in Europe in '13. Is that all done mow? Is there still stuff to come out of the regional StarBev pot and the merger pot between the UK and Europe? The second question was really around the shape of the revenue going forward. Sales revenue per hectoliter was pretty strong and I remember at the beginning of the year, it certainly weakened. How do you see the balance of the revenue going forward into '14 then?

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

I'll let Mark take the second one in particular and certainly comment on the first. The savings in Europe, just to clarify, there were two pieces, we did say we had $15 million of synergies out of the StarBev business. We're well on track to do that. The $40 million to $60 million savings, as Gavin intimated, quite a bit of that came out of the restructuring we did, I mean we're already doing, in effect, to the UK supply chain base, and then some MG&A, some G&A savings as well. There are two different issues here. Mark, do you want to build on that?

Mark Hunter - *ABN AMRO - Analyst*

Just in terms of adding to Peter's comments around overall savings, I think two continuing opportunities in Europe. Once is the transfer of [zeb BB] as a framework approach and we've moved from the central European business across the UK and that's extracting further value of the UK business. Some of the learnings from the operational excellence around supply chain, again, we're kind of reversing that back into the UK and there are some further opportunities building on the back of the capital investment program that's been running in the UK for three years (technical difficulty) the supply chain. There's still more for us to extract within the UK business, which is good news. The central European business is already running pretty lean, as you would expect.

In terms of the top line, I have to say, I've been pretty pleased with our management and focus of the top line. Our total revenues are upward because of the lack of demand we've seen in overall volume sluggishness. We're conscious of this as an area of focus for us going forward. What we have done through 2013 is really step change our revenue management capability, brought an additional resource central to our thinking, and it's clearly one of the key levers from a Pack management perspective. There is a lot of effort and increased capability around our revenue management performance going forward.

Ian Shackleton - *Nomura International - Analyst*

Can I just follow up with the Tradeteam agreement having gone. What was the rationale for that? Presuming, from a distribution point of view, you are still using effects of the Tradeteam structure, are you?

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

Mark?

Mark Hunter - *ABN AMRO - Analyst*

Yes, so the Tradeteam joint venture was formed back in the '90s, when all of the assets from what was the best brewer, the business transferred across through DHL to foreign Tradeteam, and as we've moved forward almost 20 years, we felt it was appropriate for us to remove ourself from that joint venture, and that's been handled very effectively. It made sense for us. It made sense for DHL. It's has closed down and dissolved the joint venture. We now have what we believe to be very competitive market rates on an arm's length commercial arrangement for both our primary and secondary distribution arrangements. We're still using Tradeteam as is but underwritten by DHL overall and based on all of the benchmarking we've done, we feel we're in a very good place there, so competitiveness around our logistics costs.

Ian Shackleton - *Nomura International - Analyst*

Very good. Thank you.

Operator

Dara Mohsenian, Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

I was just hoping for a bit more clarity on Canada. From a brand standpoint, is it mainly just the Coors or are there other pieces of the portfolio that are under pressure here? Because it seems like a pretty dramatic slowdown in the last couple of quarters. Do you think you're investing enough back behind that business in marketing, given the MG&A declines this year, and what are the plans with marketing going forward as we look out to 2014 and beyond?

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

Stewart, do you want to pick that one up?

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

Yes. Go back to the point that I made to Judy, we expect to see more news, better copy and strong activation around Coors Light. Put that on the one side. Is there more than Coors Light? Yes. Coors Light is, by and large, the biggest chunk. The slowdown you saw at the end of last year, you should reflect on the fact that, in the prior year, we had the launch of the Coors Light Iced Tea and we were lapping that.

Pull that out, that is at least one-third of the impact of the Coors Light performance last year. In addition to Coors Light, we've got a couple of tail brands that are fairly large brands for us in Quebec. Not unlike other CPG companies, you will have some of those trade brands. We'll be pursuing some tactics there. Not dissimilar to what we did in value to make sure that we optimize what we're getting out of those brands.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. That's helpful. Then from a marketing perspective --

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

Sorry, you did ask on the investment. Just back to the investment, do I think we're investing enough behind the brand, the answer is yes. One thing to keep in mind is that this year, there has been a reclass of some of the in-pack promotions that we've seen, so we have seen more in-pack promotions in the marketplace. Those in-pack promotions are recorded as cost of goods sold and not as marketing. But we've reallocated those funds simply because of our move to more in-pack. I wouldn't look just at the MG&A line in trying to understand how much we're spending against marketing.

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

Dara, if I can just try and conceptualize all of this for you, if you think about what we've laid out consistently, we said we want to grow market share with our core brands, develop above-premium, be strong in innovation. If you look at what's happened in Canada, we've turned Molson Canadian around the last few years and it grew share this year. Above-premium, we've had a good year with Six Pints under the (inaudible) brands. Innovation has been good this year.

It's not been spectacular, but we've done exceptionally well with cider and we've got a very good innovation program going through. Additionally, in Canada, we had the issues where we were losing share in value. We put that right this year. Yes, there is more stuff going on but when you strip it all back, it does really come back to getting Coors Light motoring again and we're pretty confident we understand what we've got to do to do that.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. Thanks. That's helpful.

Operator

Bryan Spillane, Bank of America Merrill Lynch.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

First, the capital spending in Canada related to the projects related to efficiency, is that spending connected to the $40 million to $60 million of overall cost savings that you've outlined previously? Or will the benefits you get from that capital investment over time sort of be on top of your already articulated cost savings?

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

I think we might have answered that earlier. I'll just check with Gavin.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Yes, Brian, the capital spending, which we're putting into Canada, the extra amount, is associated with our cost savings of $40 million to $60 million. We're using our Pack model to make sure that the decisions we're making up there are driving the right returns for us from a shareholder return point of view.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. Thanks.

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

Overall, Brian, our capital spending isn't going up by the full $40 million, it's going up by about $32 million, I think.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. We're kind of looking at covering some of the COGS per hectoliter inflation on a local basis. Just conceptually, will some of that be covered with price increases or are you expecting productivity to cover that as you go into 2014?

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

There's a number of things that will affect it. Obviously, Gavin, do you want to go through the detail?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Sure, Brian. We've got a lot of things that go into cost of goods sold. From a negative point of view, our cost of goods sold increases because of our increased focus on the above-premium sector and innovation. That does add cost to COGS, but the expectation, obviously, is that when we do innovation in above-premium that we're going to drive value at the top line and a favorable overall mix. Certainly, our cost savings are included in our cost of goods sold guidance. Although, not all of it is in there; there is a decent portion that comes in the MG&A line. It's a combination of factors, Brian.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

I might have misunderstood. The COGS per hectoliter inflation that you're expecting for 2014 is not just simply commodity costs or packaging cost increases. There's also a mix component in there?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Right, it's an all-in number for us. In MCR, for example, you would have an impact on COGS based on the nature of the business, whether it was the export business or license business or whether it was in Asia or whether it was in Europe. All of those factors are all-in in our cost of goods sold guidance.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. Relative to the Pack model and if you could, just maybe give us a little bit more description on the last year? 2013 was the first real year where you've implemented it and there was some benefit or some result from that implementation. As you move forward into 2014 and it is more fully ingrained or implemented even further, do you expect a step change benefit in terms of having it become more ingrained? You had a pretty good early return, so I'm just trying to understand, do you expect to see even more benefits from it as you move into 2014?

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

It's at the top line, Brian. The reason why we have gone down this route and we have been talking about it and really, we came out with it last year, but we've been talking about it and implementing quite a bit of it in the organization prior to that. It's not a big flash bang that we introduced it last year and got results from it last year. There was a sort of a lead-in. Really, what we're trying to do is ensure that we've got a very robust internal measurement that helps us actually focus totally on total shareholder return and that's just going to be ongoing. Gavin, do you want to talk specifically about 2014, 2015?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Sure, Peter. We did get some significant benefit out of it in 2013 and we focused in on the senior levels of our Management team, Brian. We will obviously be pushing it out further. A program like this takes years to really ingrain in an organization.

I would expect it to take several years to get right through the organization. Yes, I do expect some benefits coming forward in 2014. Obviously, we've had a stiff change improvement in our working capital in 2013. I don't expect to repeat that in 2014, but we still expect to drive working capital savings out and we expect to continue to drive total shareholder return, as Peter said, on all of the decisions we made, with be it capital expenditures or new package innovations, as examples.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

All right. Thank you.

Operator

Mark Swartzberg, Stifel Nicolaus & Company.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

A couple of cash flow-related questions. But I do have to ask, you went to this Gregorian calendar in Canada. My question there is what came before that? [Laughter]

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

The next question, Mark?

Mark Swartzberg - *Stifel Nicolaus - Analyst*

On the cash flow side of things, a couple of things. Firstly, cap spending for the total Company, I didn't catch that. What's your thinking for 2014 in cap spending?

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

On capital spending about $330 million, Mark.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Great. You're selling non-core assets. You had a $22 million gain in the quarter. I didn't catch what that was. Can you speak to what that was? More broadly, where do you think you are in this exercise of selling non-core assets?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

What was specific on that particular one, which you raised, it was predominantly of sale of our stake in the Colorado Rockies.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it.

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

As part of the pack model, we're turning over all our assets to see if they meet our desired shareholder returns and where they don't, we take action on it, Mark, so it is an ongoing exercise. Either we improve the return out of the assets or we dispose of it.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it. Can you speak, Gavin, to the size of the assets that are still kind of eligible for that consideration, something to give us some sense of potential scale?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

We can't really, Mark. Again, this isn't something that we just sort of discovered. We have been going down this route a long, long time. Certainly, in Europe, and the UK, we've stripped just about everything that is salable out of those businesses. Canada, there might be something there, and some stuff around in the US, but it's not going to be seismic.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Fair enough. Okay. Great. Thank you, guys.

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

We stripped that out of underlying so we wouldn't include it in our underlying results.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Right, right. Great. Thank you.

Operator

Rob Ottenstein, ISI.

Rob Ottenstein - *ISI Group - Analyst*

Was there a comment earlier on in the call about Miller brands in Canada? I seem to have thought I heard the word impairment, but I can't recall.

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

Yes, it was in the script, which Gavin referred to, about taking an impairment in the fourth quarter. What exactly is the question, Robert?

Rob Ottenstein - *ISI Group - Analyst*

Okay, can you just tell us what exactly is going on there and is that related to the lawsuit with SAB?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Yes, Robert, it is. It is related to the value of Miller intangible up in Canada. In the quarter, we updated our probability weighted range of possible outcomes and of course, there are many, many outcomes of that situation out there. We updated our probability-weighted model and determined that we needed to impair our intangible asset up there by around $18 million.

Rob Ottenstein - *ISI Group - Analyst*

Okay. But no actual decision has come down yet on the lawsuit, is that correct?

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

That's correct.

Rob Ottenstein - *ISI Group - Analyst*

Okay. Can you talk a little bit, I know it's small, but just I'd like to get a better understanding of what your strategy is for Australia and why, in particular, you're focusing on that market now?

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

Australia has always been a market of interest for us, because it's a heavily branded market and it is a market we understand and we think we're very fortunate to have landed such an excellent partner with such a great track record in Coke Amatil. But Kandy, do you want to talk about it in detail?

Kandy Anand - *Molson Coors Brewing Company - President - Molson Coors International*

Yes, as Peter said, we're delighted to enter Canada with a very powerful partner with Coca-Cola Amatil. We launched Coors and Blue Moon in the market just about two months ago. It's early days. But our early results, we're very, very happy with. The distribution of both of those brands are well ahead of plan. The consumer uptick, the initial days, look good. It's early days to predict where that's going to lead to. But we are very confident that our partnership with Coke Amatil is very fruitful for us in the years to come.

Rob Ottenstein - *ISI Group - Analyst*

Terrific. Thank you very much.

Operator

(Operator Instructions) John Faucher, JPMorgan.

John Faucher - *JPMorgan Chase & Co. - Analyst*

I want to talk a little bit about the Canada profit situation as we look into 2014. It looks like you're going to have the winding down of the JV COGS I think you said -- and then probably you are going to have some transactional FX along with the fall in the Canadian dollar. It seems like the negatives are out there. Is there something more positive from that standpoint that can offset some of the pressures that we're expecting to see there in 2014? Thanks.

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

First of all, the Modelo JV, yes, in terms of ongoing earnings, it will impact this year, but we have actually got the profit from that in cash for the rest of the contract. We've extracted the value, which is the important thing, and we're pleased with that. FX at the moment, yes, we will see which way FX goes. It's a benefit one year, it's not a benefit the next. It is a bit like the weather, to be honest with you, that washes around. In terms of the overall business in Canada, as I outlined earlier, the provinces on which we rely overly are really struggling economically. Having said that, and this is a bit of a round-about way of answering the question, we're pretty upbeat about the US environment and we do think the US environment is improving.

It'll take time to come through. That will benefit those provinces we're talking about, specifically Ontario. If you look forward two or three years, we're much more upbeat about consumer demand coming through over that period of time. Within that, within Canada, our core activities are exactly the same. We wanted to develop above-premium, we're really pleased with the way that Six Pints is developing, much as Tenth and Blake did in the US. We've got strong double-digit growth from there and we're encouraged by that and we think this year will be a good year. In terms of core brands, we've talked about Molson Canadian's done exceptionally well.

We will turn around Coors Light. In terms of above-premium, as we said, Coors Banquet is selling at an index well above 100 of Coors Light. We've got a very strong innovation program coming through for Canada this year, of which you'll hear more about later in the year. Really, it is going back to the core strategies of focusing on our brands which, as I said earlier, across most of our markets, we've done, actually, very successfully during 2013. I don't know if that answers your question, John but --

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John Faucher - *JPMorgan Chase & Co. - Analyst*

It does. I guess what you're saying is, I mean, 2014 could be a tough profit year, but you feel like you're taking a lot of good steps; particularly in terms of getting the productivity going, et cetera, that you think you'll be in a better shape as we look a bit farther out. Is that a fair statement?

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

That's a fair statement. We'll have a more efficient cost base from which to move from over the period and you pick your number. Two to three years, we do believe, by the end of that, consumer confidence will have improved. If you look at what we've done, if you take it outside of Canada, look what we've doing in Europe, again, really tough environment. You would have read other reports on how people have done in Europe. In a tough environment, we've gained 0.5 share point in the markets in which we operate and we're doing that because our core brands are strong, because we have invested in them, we're moving above-premium and our innovation program is strong. Its the same strategy across the piece.

John Faucher - *JPMorgan Chase & Co. - Analyst*

Got it. I've seen a couple of news stories about the beer fridge over in Sochi, so hopefully you're getting some good PR on that as well?

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

I think you are one of many, many, many millions of people across the world who have seen that. That was a great coup.

John Faucher - *JPMorgan Chase & Co. - Analyst*

Excellent. Thanks, guys.

Operator

We have no further questions at this time. I will turn the call back to our presenters.

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

Okay. Thank you, everybody, for joining us today and for your interest in the business. I look forward to seeing you at the similar script call at the end of the first quarter. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.
