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TAP.A - Q2 2011 Molson Coors Brewing Company Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Michelle and I will be your conference Operator today. At this time, I would like to welcome everyone to the Molson Coors Brewing Company 2011 second quarter earnings 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 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. Again, that is



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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.

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

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

Thank you, Michelle. And hello. Welcome, everybody, and thanks for joining us today. With me on the call this morning are Stewart Glendinning, Molson Coors CFO; Tom Long, CEO of MillerCoors; Dave Perkins, CEO 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; and Dave Dunnewald, Molson Coors VP of Investor Relations.

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

In the second quarter, our Company's underlying after-tax earnings decreased about 1%, as positive beer pricing and cost reductions in our core businesses, and favorable foreign exchange were offset by the impact of weak economic conditions, commodity inflation and investments in our international businesses.

As we mentioned during our annual New York investor day in March, our growth strategies rest on 3 pillars, maximizing the profitable growth opportunities in our core markets, accelerating our push into new and emerging markets to grow our brands globally, and looking for M&A opportunities that meet our criteria for generating shareholder value. [We conclude with our] results for our core markets, we faced challenges in 2 main fronts in the second quarter. Volumes for the industry on our businesses were weak due to struggling economies, high unemployment among our core demographic base, and high fuel prices. Our Canada and UK businesses cycled particularly difficult volume comparisons from a year ago, which negatively impacted results this year.

Input inflation, including fuel, packaging materials, and agricultural commodities, has driven our 2011 cost of goods per hectoliter forecast in all of our businesses higher than we anticipated just 6 months ago. Our hedging strategies have lessened, but not eliminated the impact of this inflation. At the same time, we have continued to invest behind our brands and innovation. And in the US, Blue Moon and Leinenkugel grew double digits and led to growth of the craft category while Coors Light grew both volume and market share.

In Canada, we introduced Molson Canadian 67 Sublime, Miller Chill Lemon, and Rickard's Blonde. And in the UK, we grew market share for the third consecutive quarter. After successfully implementing an SAP system in the first half of this year, the UK team plans in the second half include a number of new brand introductions, a new beer to appeal to women, and the rebranding of Carling.

Our international group has increased its investment rate behind Coors Light, Carling and other brands, and has been growing the top line at high rates in a group of priority new and emerging markets. International business volume was 54% higher in the second quarter, driven by the addition of the Si' Hai brands in China and the Modelo brands in Japan, along with growth of Carling in Europe and Coors Light in Latin America and China.

In the quarter, we completed the purchase of a controlling interest in a new joint venture to brew and market the Cobra brand in Southeast Asia, including India. This \$35 million investment represents a very attractive way to enter one of the world's most fastest growing markets and gives us global control of the high opportunity Cobra brand.

We also introduced the Carling brand in the Ukraine this quarter and initial results are very positive. As we mentioned in New York in March, our international group is increasing investments in high potential markets, with the goal of becoming a significant



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contributor to total Company top line and bottom line growth in less than 5 years. The primary focus of the international team for the short to medium term is on making the recent brand and market launches successful.

We will also continue to look for M&A opportunities that fit our financial criteria. Besides the Cobra business in south Asia, other recent examples include the Sharps Brewery in the UK earlier this year and Granville Island Brewing in Canada last year.

During the past several years, we have used our cash not only for growth opportunities, but also to continue to strengthen the Company's balance sheet and to double our dividends per share. The combination of strong cash generation and substantial cash balances now gives us the opportunity to increase returns to shareholders through a stock repurchase program, which we introduced this morning with our second quarter earnings. Our Board has approved a program to repurchase up to \$1.2 billion of the Company's Class B common shares, which we expect to implement over a period of the next 3 years. This new stock buyback program reflects our continued confidence in the long-term growth and cash generating potential of our Company. In a few minutes, Stewart will provide additional details regarding our capital allocation priorities.

So with those highlights of our strategic growth pillars and the new share repurchase program, I'll turn it over to Stewart to give second quarter financial highlights. Stewart, over to you.

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

Thanks, Peter. Hello, everyone. In second quarter financial highlights, worldwide beer volume for Molson Coors declined 2.8% driven by continued industry volume weakness in Canada, the US and the UK. Nonetheless, total Company net sales increased 5.7% due to foreign currency movements, along with higher pricing and positive sales mix, and international growth. Net sales per hectoliter increased 8.9% in the quarter.

On the bottom line, underlying after tax income of \$231.6 million, or \$1.23 per diluted share, was 1.2% lower than a year ago. Driven by lower sales volumes, higher commodity inflation, and investments in our international businesses, partially offset by positive pricing, continued cost reductions, and favorable foreign currency movements. It is important to note that our second quarter underlying earnings excludes some special and other non-core gains, losses, and expenses that net to an \$11.3 million pretax charge. These adjustments to our US GAAP results are described in detail in the earnings release we distributed this morning.

In segment performance highlights starting with Canada, underlying pretax income decreased 4.5% to \$139.9 million. Increased pricing, MG&A reductions, and favorable foreign currency were more than offset by mid single digit volume declines and the resulting fixed cost deleverage. These results include a \$5 million benefit from a 6% year-over-year increase in the Canadian dollar versus the US dollar. Sales to retailer SDRs declined 4.2% in the second quarter due to continued industry weakness and competitive price discounting in key regions.

Our market share declined approximately 0.75 of 1 point from a year ago, which was partially driven by a challenging comparison versus second quarter last year, when we grew market share more than 1.5 points. Net sales per hectoliter increased 2.2% in local currency, due equally to continued positive pricing and the addition of North American breweries' contract brewing sales. Cost of goods sold per hectoliter increased 7.7% in local currency, driven largely by the impacts of fixed cost deleveraging from lower volumes, input inflation, sales mix, and the cost of brewing beer under our NAB contract. Marketing, general and administrative expense decreased in the quarter, due largely to lower overhead expenses.

Moving to our US segment. Underlying pretax income increased 5.6% to \$172.2 million in the second quarter, driven by continued positive pricing, favorable brand mix, and strong cost management. Domestic STRs decreased 2.7% in the quarter. Domestic net revenue per hectoliter for MillerCoors, which excludes contract brewing and Company-owned distributor sales, increased 2.9% in the quarter. Meanwhile, cost of goods sold per hectoliter increased 2.3% with higher freight, fuel and packaging inflation,



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partially offset by cost reductions. MG&A expenses increased 0.4% due to higher information systems expense, partially offset by cost savings.

In our UK business, second quarter underlying pretax income increased 6.1% to \$34.7 million, driven by a temporary reduction in marketing spending, a decrease in defined benefit pension expense, and favorable foreign exchange, partially offset by lower volumes as a result of cycling the FIFA World Cup in 2010. The British pound appreciated 9% versus the US dollar, which improved pretax earnings by approximately \$3 million.

STRs decreased 5.7% due to cycling the World Cup in June 2010. This compares to a 10% decline for the UK industry, yielding a market share increase, the third consecutive quarterly share gain for our UK business. Owned brand net sales per hectoliter increased 7% in local currency, driven by the impact of positive sales mix in the quarter, especially the addition of the Modelo brands. Owned brand cost of goods sold per hectoliter increased 16% in local currency, with nearly all of the change due to sales mix, which was predominantly related to the addition of the Modelo brands. Other drivers include input inflation and fixed cost deleverage from lower volumes. Meanwhile, marketing, general, and administrative expenses in the UK declined 7% in local currency, due to lower marketing and pension expense, partially offset by higher sales force and information systems costs.

The international and corporate segment posted an underlying loss of \$67 million pretax in the second quarter, 16% more than a year ago. This increase is primarily due to higher investments in our international businesses and brands, along with a \$2 million increase in corporate net interest expense. Approximately 25% of the \$10 million loss in the international businesses in the quarter was driven by quarterly timing differences, as well as integration costs relating to the new Cobra joint venture in India. Equally important, the international business grew volume 54% and contributed nearly 15% of total Company net sales growth in the second quarter.

Underlying free cash flow for the first half of this year was \$122 million, which was made up of \$272 million of operating cash flow, plus \$15 million of proceeds from the Foster's swapping line, and \$1 million from asset sales. Minus \$72 million of capital spending, and \$94 million of cash invested in MillerCoors. Note that MillerCoors also provided \$273 million of operating cash in the first half, yielding net pretax free cash flow of \$179 million in the first half. This \$201 million reduction from last year was primarily driven by the timing of working capital and lower cash provided by MillerCoors this year. Our 2011 underlying free cash flow goal remains \$750 million, plus or minus 10%. Please see our website for details regarding our adjustments to arrive at underlying free cash flow.

Total debt at the end of the second quarter was \$2 billion. And cash and cash equivalents totaled \$1.2 billion, resulting in net debt of \$0.8 billion.

Looking forward, we have not changed our 2011 guidance for total Company capital spending, pension contributions, corporate interest expense, or MG&A expense in the corporate and international segment. Refer to our February and May earnings calls for our most recent guidance regarding these metrics. We are revising our outlook for the Company's 2011 effective tax rate to a range of 15% to 19%, which is 2 percentage points lower than our outlook at the beginning of the year.

Turning to cash use, we have been consistent in saying that our priorities for allocating capital will be in 3 areas. Growth opportunities, strengthening our balance sheet, and returning cash to shareholders.

First, in growth opportunities, Peter reviewed our growth strategies earlier, and highlighted some of the transactions and brand investments we've made recently. Other examples of reinvesting in our business include high return investments in facilities, systems and capabilities, such as the new high speed can line we're installing in our Montreal brewery this year, and a series of planned supply chain improvements in the UK over the next few years. These are return-driven investments that also support our brand and innovation strategies.



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Second, our balance sheet is much stronger now after paying down substantial debt and pension liabilities in recent years. And our leverage ratios are in a comfortable range. One specific balance sheet question that we will resolve in the next year related to the cross currency swaps that are now about \$440 million out of the money and maturing in May 2012. We likely will address this upcoming maturity through a combination of settlement and extension.

Third, in returning cash to shareholders, Peter mentioned that we have doubled our dividend per share over the last 4 years. With significant current cash balances and strong prospects for cash generation in the years ahead, a stock buyback program also makes sense. This morning, we announced our Board approval of a \$1.2 billion stock repurchase program, which we plan to implement over the next 3 years. We will manage this program opportunistically, with the primary goal of growing long-term shareholder value. We are pleased to be in a strong position to increase cash returns to Molson Coors shareholders, while preserving financial flexibility to explore growth opportunities and strengthen our balance sheet in the future.

As we consider opportunities and circumstances change over time, we will continue to monitor and pursue the best returns for our shareholders, and this may impact our capital allocation priorities. As always, all potential cash uses will be vetted by our disciplined process and must meet our firm criteria of providing a clear view to near-term earnings accretion and building long-term shareholder value.

In the area of cost outlook, each of our businesses continues to face significant challenges from high unemployment and fuel costs.

Looking ahead by business, in Canada, we now expect our 2011 owned brand cost of goods sold to increase at a mid single-digit per hectoliter in local currency. We also expect Canada all-in COGS, which includes the cost of contract brewing, to increase at a mid single-digit rate per hectoliter in local currency. The third quarter we will be cycling a non-recurring reduction in costs that we called out a year ago.

In the UK, we still expect our full year owned brand COGS per hectoliter, including the impact of factored brands and contract brewing, to grow at a low double-digit rate in local currency. This increase is driven by the addition of the Modelo brands, which we treat as owned brands in the UK. We expect all-in UK COGS to increase at a mid single-digit rate per hectoliter in local currency.

In the US, we continue to expect MillerCoors COGS per hectoliter to increase at a low single-digit rate in 2011, largely due to significant recent increases in freight and fuel costs. In all our businesses, we hedge a portion of our commodity inputs, generally over a 1- to 3-year range to reduce the impact of commodity volatility on our financial results in the short-term. Nonetheless, we expect significant cost challenges this year from volatility in freight, fuel, and the unhedged portion of our commodity inputs. In our core markets, we are evaluating our pricing in order to take into account growing input inflation.

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

Thank you, Stewart. So by way of regional outlook, in Canada, having now cycled last year's winter Olympics and several new brand launches, we anticipate easier volume comparisons in the second half of this year. More important, our brand portfolio is the strongest it has been in many years, and we continue to build on this strength. We are investing behind our recent planned expansions, while continuing to drive consumer relevance for Coors Light and Molson Canadian through successful programming, such as our Red Leaf campaign.

In the US, we continue our keen focus on premium lights, crafts and imports. Execution and distribution continue to be a major focus area for 2011. And we are investing heavily behind our programs, including multi-cultural outreach. We also remain focused on core brand innovations. Coors Light Super Cold Activation packaging is resonating well with consumers, and we



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are supporting it with retail programs and national advertising. Miller Lite will continue its taste propositioning with new TV spots placed during prime sports programs. We are driving strong focus on Hispanic soccer with Miller Lite sponsorship of the Gold Cup tournaments and the Shiver's Mexican team sponsorship.

We are also driving craft and import growth through Tenth and Blake. In Blue Moon and Leinenkugel's we have 2 of the largest and fastest-growing craft beer brands in the US market. Our Leinenkugel Summer Shandy and its Summer Sampler Pack are helping to win the summer. And we continue to increase Blue Moon momentum with additional television and a focus on seasonals.

In the UK, our team continues to make substantial progress in improving underlying profitability through the expansion of our brand portfolio and our value ahead of volume strategy. During the second quarter, we grew market share for the third quarter in a row.

With the completion of our SAP system implementation this summer, our focus during the second half of the year will be aligned behind specific brand building and innovation activities. Examples will include the rebranding of Carling which will give the UK's largest beer brand new positioning, a new visual identity, innovative aluminum bottle packaging, and a new premium line extension called Carling Chrome which will be launched later this month. Another innovation to be launched is Animee, a beer tailored to women with a delicious fresh taste that will be available in 3 variations beginning in early autumn. Coors Light and Caffrey's will also add innovative aluminum bottles to their package lineups.

In our international business, we continue to invest in emerging and other markets to drive top and bottom line growth, so this business can be a significant driver of Molson Coors growth in 5 years or less. We continue to expect incremental 2011 investments across several markets to total \$25 million to \$30 million on the MG&A line, including adding the new Cobra business in Indian, the Modelo brands in Japan and the joint venture in China to our results. Our expectation is that there will be no significant impact on the international group's bottom line as a result of this increase in MG&A spending, as these new investments will be largely offset by volume and gross profit in 2011.

The following are the most recent volume trends for each of our businesses early in the third quarter. In Canada, our sales to retail for the 4 weeks ended July 23, decreased at a mid single-digit rate as we cycled strong volume growth and share gains in July of last year. In the first 4 weeks of the quarter, our UK STRs have increased at a low single-digit rate due to cycling weak sales following the World Cup in the third quarter 2010.

In the US, for the 4 weeks ended July 23, MillerCoors STRs declined to low single-digit rates. As always, please keep in mind that these numbers represent only a small portion of the third quarter and trends could change in the weeks ahead.

To summarize our discussion today, Molson Coors second quarter underlying after-tax earnings decreased about 1%. Positive beer pricing and cost reductions in our core businesses were offset by the impact of continuing weak economic conditions and global commodity inflation in the quarter. Despite these challenges, we remain focused on building shareholder value through our growth strategies, profit, and cash generation, and our disciplined use of cash.

We also generated substantial cash in the quarter, a large portion of which will be returned to shareholders by our increased stock dividend and our new stock buyback program. While our short-term results reflect challenges, we are implementing aggressive measures to ensure that Molson Coors continues to drive profit, cash generation and shareholder value over the long-term.

Now, before we start on 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 the quarterly results. That call will also be available for you to hear by webcast on our website.



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So at this point, Michelle, we would like to open up for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Judy Hong from Goldman Sachs.

Judy Hong - Goldman Sachs - Analyst

Thanks. Hi, everyone. First, Canada, just wanted to get a little bit more perspective. As we think about, if you look at 2Q, your volume and market share was down. Your costs are coming in higher, and your pricing is lagging inflation. So just wondering, what gets better in the back half, if any?

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

All right. Thanks, Judy. It's Dave. What we saw in Q2 was a continuation of the economic pressures that we felt recently. Certainly gas prices and competition from other alcohol beverage is putting pressure on. Weather was a factor in Q2, as well. So we see that. Now, as you think through the balance of the year on the industry, the only thing I would point out is that last year in the first 7 months of the year, 2010, we did have 6 months that were essentially flat or up. So we had a strong performance in the first part of the year. In the last 5 months of the year, 4 of the 5 months were down at the industry level. So as Peter said, we're cycling something different going forward than we've seen on a year-to-date basis.

On market share, we gave up about half of our gain in Q2 from the 1.5 points we picked up last year. As I look at the market share result, I actually feel pretty good about it. I look on a sequential basis, Q2 versus Q1, we actually grew our share marginally. And when I look at our innovation and our core brand programs, they are working well for us. Innovation in the quarter delivered about 3 share points for us. That's on the high end of what we've seen over the last year or so. So feel good there.

Canadian trademark share was at last year's level in Q2, and we had strong pricing behind the brand. So we're feeling good there. We've got some new programming out on Canadian, including the Red Leaf program, with a positive reaction. And then on Coors Light, our share was off slightly, but Coors Light was really the key beneficiary of that major spike in Q2 of last year. Again, we are seeing good brand equity scores on the brand. Our pricing was strong. So feeling good there.

Last year, our market share performed particularly well through to the end of August. Once we get into comps from September through to December, it is easier for us. So I would just give you that perspective.

Judy Hong - Goldman Sachs - Analyst

The comparisons do get easier both from a market share perspective and for the industry as a whole. But just in terms of the competitive backdrop and the discounting activity you're seeing, is it your sense that that would also moderate in the back half and that gives you a little bit more comfort as well?

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

Hard for me to predict what will happen in the back half. What I would say in Q2 is the market was very competitive. We did see a step-up in discounting compared to the first quarter. And I think small brewers were especially active. Consumers continue



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to respond obviously to the special offers. But nonetheless, we saw an increase in our NSR per hectoliter in the quarter, despite that environment. And as I say, our brands performed where we would like to see them performing.

Judy Hong - *Goldman Sachs - Analyst*

Okay, and then Peter and Stewart, just a couple of questions on capital allocation. First, on the share buyback announcement this morning, should we think that this may be an indication that perhaps the M&A opportunities might be a little bit more limited, at least in the near term? And then Stewart, you talked about the \$400 million currency swap that's out of money, or that expires in 2012 and is out of money. Can you just help us on how we think about the impact on your cash flow for 2012?

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

I'll take the first part of that, Judy. I'll let Stewart take the second part. I would really refer back to the New York conference with the analysts that we had in early March. I think we laid out pretty clearly that what we wanted -- or Stewart laid out pretty clearly -- we wanted flexibility in terms of the cash we hold on hand. We're comfortable we do that. We wanted to make sure that we got our balance sheet in good order. And we feel much better about what we've done around pensions and liabilities that we had on our balance sheet a couple of years ago.

We did say that really when we look at cash, we continue to look at our use of cash to the extent that it can actually drive shareholder value. This is one way of giving value back to shareholders. It's not the only way. We will continue to look for M&A opportunities, but only if they actually drive the shareholder value that we would expect them to drive. So really our position hasn't changed. And really I think we flagged pretty clearly in New York what we would do if we didn't have any opportunities on the M&A front, and that's what we're doing.

So I think we've been pretty consistent from the announcement and the clarity that we tried to give in New York and what we've actually done.

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

Thank you, Peter. Judy, I would just really echo Peter's point there. This reserves flexibility for us going forward and we think it's an excellent way to continue to try to drive shareholder value.

On the swap itself, I called out in the script that we're looking at a number of alternatives, but I think the most likely scenario is that you'll see this be a combination of some settlement of a portion of the liability and some portion that gets extended. This will basically allow us to take that over time. It will potentially subject us to movements up or down, but as in any hedging program, and will allow us to take into account tax considerations as well. Bottom line is it's a period of years, Judy, is how you should look at that.

Judy Hong - *Goldman Sachs - Analyst*

Okay. And then the tax rate coming in lower for this year, is there any change to your long-term tax rate at this point?

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

No, we continue to expect that our long-term guidance will remain the same at 22% to 26%. We are expecting the benefit of some one-time benefits in the back half of the year that could push out our tax rate down.



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Operator

Jeff Farmer from Jefferies.

Jeff Farmer - Jefferies & Co. - Analyst

Good morning. I think several months ago you pointed to a few hundred basis points of additional margin expansion in the MillerCoors segment over the next few years. I realize that's a ways out, but if we just think about this for a second. If the US economic backdrop that we're seeing right now carries deep into 2012, is that number still realistic in your mind?

Dave Dunnewald - Molson Coors Brewing Company - VP IR

This is Dave Dunnewald. That's actually SAB Miller guidance, so we'll leave it to them to comment on that.

Jeff Farmer - Jefferies & Co. - Analyst

Fair enough. And then following up real quick on Canada, as it relates to, you mentioned innovation driving 3 points of growth. Are you willing to talk about the brands that are driving that and the sustainability you think you'll see moving into the back half of '11?

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

The innovation is fairly broad based. In the past 6 months, we've rolled M, Molson M out to Ontario in the west. We've got Molson Canadian 67 Sublime and Miller Chill Lemon in the flavored area and Rickard's Blonde. Those are building on top of the Keystone brands. And we've actually got fairly solid performance across the group of new brands. And we're far enough into this now that I'm actually feeling pretty good about the way the brands are performing and the staying power that they are showing.

Jeff Farmer - Jefferies & Co. - Analyst

Okay, and then just a quick follow-up on Canada. You talked about this, but just following up on the competitive discounting, realizing that you can't predict what happens in the back half of '11, but was that competitive discounting intensifying as you move through the 2Q?

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

It was fairly stable through Q2, and I would say it was a step up rather than a dramatic shift in the environment that we're seeing. Clearly, there's some response to the volume softness, but I would characterize it as more of a step-up.

Operator

Mark Swartzberg from Stifel Nicolaus.



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Mark Swartzberg - *Stifel Nicolaus - Analyst*

Thanks. Good morning, guys. Dave, on Canada, also on a little bit more on the price discounting you're seeing, could you talk a little bit more about the regions where you're seeing the discounting and how you think it affects the outlook for pricing across Canada beyond looking into the second half and into 2012?

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

Yes, Mark, there's not much regional variation in what we're seeing, which actually is encouraging. This isn't like something that we saw 3 years ago in Quebec where you get a fairly severe situation in a region. So we're seeing that step up across the country, as presumably people go after volume. And, not very alarmed by it. I think given the circumstances with the industry context, it's a fairly predictable reaction to that.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Great. And are you seeing it both from your major competitor in the lower end products, or is it more weighted towards the lower end products?

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

No, it's across the portfolios actually. As you look at the various brewers across the country, whether it's mainstream or above premium, you're seeing temporary discounting behavior. In the value segment, the prices tend to be fairly stable.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it, great. Thank you, Dave. And then Peter or Stewart, on the share repo news, for the sake of modeling, any thoughts on how we should put it into our models over the next few years? I guess you're saying some of it's going to come in the second half. Is it reasonable to think ratably? I realize you don't know what deals you are going to do, but can you give us some sense of pace here?

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

Mark, I really can't. What we said is that we're going to do it opportunistically. We laid out the 3-year period, but it will largely depend on how we think that's going to drive shareholder value. So I'm sorry, but I can't give you more than that.

Operator

John Faucher from JPMorgan.

John Faucher - *JPMorgan - Analyst*

Thanks. Just a quick follow-up on Mark's question. By opportunistically and looking at best way to drive shareholder value, basically it sounds like you're just saying, if the stock's down, then we'll be more aggressive, but it's not going to be in the market every day type of thing, correct?



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

We really don't want to get into the details of exactly how we plan to trade. That's counterproductive. What I will say is that we're sitting on \$1.2 billion worth of cash. And we continue to generate cash. This is a company that generates a lot of cash. We're going to have the flexibility to do all of the things that we need to do using a varied pace, depending on the opportunities that present themselves to us. That's the best really I can give you, bearing in mind also that we'll be paying dividends over that same timeframe.

John Faucher - *JPMorgan - Analyst*

Got it, okay. And then a separate question. I think you guys talked about some marketing spending in the UK, shifting out of the second quarter. And I think we saw a similar thing, and they talked about this on the MillerCoors call in terms of some of the NFL-related spending shifting. So it seems like the spending shift was most likely budgeted in, something planned ahead of time, and it doesn't sound like it's a response to continued tough category trends. Is that a fair statement? And as you shift some of that spending into the back half of the year, can you get a payoff that quickly, where maybe that helps drive a little better volume going forward? Thanks.

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

So you're absolutely right. They were planned. As far as the UK's concerned, we had a major SAP implementation. So really all of our efforts were placed on making sure that that went through smoothly, and the team did a great job there. So we did plan for most of the activity in the UK to be back loaded. You will get some benefit on the top line from that activity because there were also new product innovation, but obviously you won't get a bottom line benefit from new products in such a short period of time.

For the established brands, such as Carling, then, yes, we would expect the impact of the expenditure to be reflected in better performance. On the US, it was a more structural thing, where we lost the NFL and we had first half spending on that last year. That's really being translated more to the NHL now in the second half of the year. But again, Tom, you're on the line, if you want to expand on that, please do.

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

No, I think you covered it precisely. Thank you, Peter.

Operator

James Watson from HSBC.

James Watson - *HSBC - Analyst*

Good morning, everyone. First question is just back to Canada for a second. Wanted to know about the price gaps versus your competitors, both your primary competitors and smaller competitors, just how are they right now compared to historical ranges, and seeing that you guys took up pricing a little bit? If the price gap is getting larger, does this take away from some of your flexibility to make moves in the market?



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

Yes, James, we haven't let the price gaps relative to any major competitors change appreciably. So we remain competitive. Certainly there has been some increased aggression from smaller brewers, it's difficult to fully keep pace with. But I wouldn't characterize it as a really significant widening of gaps. We continue to do promotional activity by region, by channel, and by pack type that keeps us in the ballpark of competitiveness. We watch the price and volume balance and then make sure that our brands are able to perform for us. I think the challenge for us that we need to watch is just that gap relative to some of the smaller players.

James Watson - *HSBC - Analyst*

Okay, thank you. And on the international MG&A, you guys talked about an additional spend on MG&A there for the rest of the year. I was just wondering, is that behind the brands that you've already bought? And then is that something we can look to going forward into 2012, that there's just going to be a higher base level of spending to build out these new opportunities internationally?

Kandy Anand - *Molson Coors Brewing Company - Pres., Molson Coors International*

James, this is Kandy. Yes, these are behind the new brands, as we mentioned. It's behind our India Cobra acquisition, our cycling of our China JV and Modelo brands that we are now distributing in Japan. So these are ongoing MG&A increases. But I want to emphasize what Peter said in his remarks, which is the net effect of these on the bottom line of the Company is not significant, because it also comes with an increased gross profit.

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

Just expand on that a little bit. We are actually very pleased with the way the international program is going. Although more opportunities have presented themselves in the short-term than we expected, we have been able to take advantage of that. And as you said in the script it's already contributing 15% of our net sales, our revenue growth. And we've been pretty clear about what we expect this sector to do for the business going forward. So it's something that is for the future, but we're very pleased with the way, with the progress that's been made in that arena.

Operator

(Operator Instructions) Christine Farkas from Bank of America.

Christine Farkas - *BofA Merrill Lynch - Analyst*

Thank you very much. Just picking up with the last point overseas, the Chinese joint venture, can you comment on ultimate CapEx requirements? Are you happy with the way the distribution agreement or the licensing agreement is working out? And would you look further down the road into building facilities?

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

So trying to hit all of those points, Christine, first of all, let's split the China business up into 2. We've got the legacy Coors Light business. That brand continues to do exceptionally well in China and we're pleased with the continued progress. And it's absolutely bang in line with where we expect it to be, and it continues to build equity value. So very pleased with that.



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In terms of the JV, it is going slower than we expected, but a lot of that really has had to do with getting certain commissions and certain licenses. We now have those and we're in a position where we can put in the CapEx that we always planned to put in, which will allow us to get much more flexibility around Coors Light as a brand, the number of SKUs that we can produce and improve the margin. So from that point of view, slightly behind the time scale we initially envisaged but everything's going to plan. We're pleased with that.

In terms of the future, we've got enough on our plate at the moment with building the Coors Light brand and also trying to get the JV and the CapEx away. So that's what we're really focused on at the moment. But I will always give myself the out, which is if the right opportunity came up in China, and it satisfied all our criteria, we would look seriously at it.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay, that's helpful. Moving to price mix across your segments, I don't think I've missed this, but could you help us with respect to the mix contribution within that revenue per hectoliter growth? So Canada was up 2.2% with respect to revenue per hectoliter. I'm wondering what front line pricing looked like relative to mix.

Dave Dunnewald - Molson Coors Brewing Company - VP IR

Yes. So on the Canada NSR per hectoliter, it was about half that increase was related to our contract brewing arrangement and half was the stronger pricing. And within that, within that, mix didn't play a role.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay, and then in the UK and the US?

Stewart Glendinning - Molson Coors Brewing Company - Global CFO

Yes, so from a UK perspective, we've now had 18 quarters of pricing growth in Q2 of this year. That was principally driven by the addition of Modelo into our portfolio. We saw continued pricing in the on premise, unit pricing growth in the off, but a little bit of an overall price decline in off, because of customer mix. But the principal driver of pricing growth was the addition of the Modelo brands into the portfolio.

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

Tom, do you have a number for the US?

Tom Long - Molson Coors Brewing Company - CEO MillerCoors

As far as pricing growth and mix is concerned, mix accelerated in the quarter, Peter, to around 80 basis points. That was mix and the balance would be pricing growth. Mix is slightly stronger in the second quarter than it was in the first.

Christine Farkas - BofA Merrill Lynch - Analyst

Okay, that's helpful. Then just a last question, maybe more anecdotal than anything else, because you have given us STRs for the first 4 weeks. But given a strong heat wave across much of the northeast or into Canada, I'm just wondering, is that something that actually helped your volumes or hurt there? Are we seeing just many outdoor activities being canceled, or are you seeing some benefit to people out and just having to be hydrated?



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

The short answer is I've got no idea, but probably there are as many people that want to go out and drink more, as there are people who want to stay in and keep cool. So we'll have to see what the numbers turn out like.

Operator

(Operator Instructions) Brett Cooper with Consumer Edge Research.

Brett Cooper - *Consumer Edge Research - Analyst*

Good morning, guys. Quick question on Canada. If innovation is driving 200 basis points of share gain and your share's down 75 basis points, can you elaborate on what brands are the main drivers of the weakness, what you're doing about it? Then on the innovation side, there was a lot of regional launches last year and expansion across Canada. Can you talk about how the innovation's performing within the regions in which they were introduced last year?

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

Yes, let me just be clear on the 3 share points that innovation accounts for. That is not growth year-over-year. That is the total of our new brands. And so what we're seeing is about 3 share points from innovation. We're seeing the Molson Canadian trademark stable and then Coors Light off slightly, as I mentioned before. On a regional basis, we're seeing a solid contribution from innovation across the regions. I wouldn't want to get into brand level detail by region, but I would say that as we look across our 4 major regions, we're getting a meaningful contribution from innovation in each, and we're seeing similar trends year on year in each.

Operator

And you have no further questions at this time. I turn the call back over to Mr. Swinburne for closing remarks.

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

Okay, thank you, Michelle. And thank you, everybody, for joining us this morning. We really appreciate your interest in the business and look forward to speaking to you again at the next earnings results. Thank you.

Operator

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



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