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TAP - Q1 2012 Molson Coors Brewing Company Earnings Conference Call

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OVERVIEW:

Management discussed 1Q12 results, reporting underlying after-tax income of $85.3m or $0.47 per diluted share.

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CORPORATE PARTICIPANTS

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Dave Perkins *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Tom Long *Molson Coors Brewing Co. - CEO, MillerCoors*

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Judy Hong *Goldman Sachs - Analyst*

Mark Swartzberg *Stifel Nicolaus - Analyst*

John Faucher *JPMorgan - Analyst*

Brett Cooper *Consumer Edge Research - Analyst*

Bryan Spillane *BofA Merrill Lynch - Analyst*

James Watson *HSBC - Analyst*

PRESENTATION

Operator

Good morning. My name is Steve, and I will be your conference operator today. At this time, I would like to welcome everyone to the Molson Coors Brewing Company 2012 first-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 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 at www.molsoncoors.com and click on the financial reporting tab of the financial 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, President and CEO of Molson Coors.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Thank you, Steve. Hello, and welcome, everybody, to the Molson Coors earnings call. Thank you for joining us today.

With me on the call this morning is Stewart Glendinning, Molson Coors CFO; Dave Perkins, CEO of Molson Coors Canada; Tom Long, CEO of MillerCoors; Mark Hunter, CEO of Molson Coors UK; Kandy Anand, President Molson Coors International; Sam Walker, Molson Coors Chief Legal and People Officer; Zahir Ibrahim, 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 quarter-one results for Molson Coors Brewing Company, along with additional perspective regarding our pending acquisition of the StarBev Brewing business, and our outlook for the balance of the year.

In the first quarter, underlying earnings per share grew 9.3% on positive beer pricing and sales mix, continued cost saving initiatives, and stock repurchases in the second half of last year. Underlying gross margin, including MillerCoors, increased 10 basis points from a year ago in the quarter, while underlying operating margin was unchanged at 9%.

The US posted a strong quarter, with underlying earnings growing nearly 17%, while the UK and Canada underlying pretax income declined from a year ago. The US benefited from its strongest NSR per hectoliter quarter in three years, and posted significant cost savings to the bottom line. In Canada and the UK, we faced margin pressure from higher pension and input inflation, as well as increased marketing investments in the UK, and cycling one-time costs in Canada.

Towards the end of the quarter, we launched a number of new line extensions. Within our core brand portfolio, Coors Light sales to retail grew more than 4% in the quarter, driven by volume growth and market share gains in Canada, the US, and the UK. Molson Canadian STRs increased at low single-digit rate in Canada. We recently expanded Molson Canadian Lager into Quebec, and have begun full national activation of our NHL sponsorship. Miller Light declined low single digits, but did receive revitalized brand messaging, new advertising creative, and an even higher level of engagement with multicultural audiences across the US beginning in March.

We have been rolling out this new programming over the past few weeks, and the initial feedback from distributors in the retail trade has been very positive.

Carling declined at a mid single-digit rate, reflecting the competitive UK market, and 2011 consumer buy-in ahead of the 2012 price rise. We drove growth in our premium brands, including Rickards Creamer and Granville Islands in Canada, Blue Moon and Leinenkugels in the US, and Cobra and Doom Bar in the UK.

On the innovation front, we introduced Coors Light Iced Tea to Canadian consumers in April. In the US, we introduced Leinenkugels Summer Shandy and the Coors Light aluminum pints. In the UK, we launched Carlings Zest, a refreshing citrus beer with 2.8% alcohol, especially designed to appeal to a broad range of adult consumers. And obviously, the major impact of these launches will occur during the remainder of the year.

The biggest news for Molson Coors in the first few months of 2012 was our agreement on April 3 to buy StarBev, the largest brewing business in central Europe, for EUR2.65 billion or approximately $3.54 billion. This business generated 2011 sales of approximately $953 million, and an EBITDA of $322 million under European Union IFRS.

The purchase price represents a multiple of just under 11 times EBITDA. StarBev brews 13.3 million hectoliters of beer annually, and has the number one brand in more than half of its markets, with strong positions in the rest. The acquisition of StarBev fits squarely into our strategy to increase our portfolio of premium brands, and deepen our reach into growth markets around the world. The central European beer market is attractive, with strong historical trends and upside potential. StarBev is a market leader in the central European region, and this acquisition provides Molson Coors with a great platform for growth, and an excellent foundation from which to extend our key brands, such as Carling into central Europe. StarBev's international flagship brand, Staropramen, will also enhance our portfolio in some of our current and planned markets.

Investment levels behind the StarBev brands have been broadly appropriate, although we believe that a moderate increase is necessary to adequately support our planned innovation and brand strategy. Based on statutory tax rates ranging from 10% to 20% in the nine countries where StarBev does business, we expect our effective tax rates related to this business to be in the mid teens. We will update you at the appropriate time, if this changes following the close.

We have consistently said that making targeted acquisitions that expand our global presence, and drive shareholder value is a key pillar for our growth strategy. We believe the acquisition of StarBev is financially compelling. It meets all of our internal capital requirements, and is consistent with these goals.

By way of an update, we are well along to completing this acquisition. We completed the public financing of $1.9 billion on May 3, and in the process maintained our investment grade ratings. This debt issue was divided into tranches of $300 million for 5 years, $500 million for 10 years, and $1.1 billion for [30] years, with very attractive coupons of 2%, 3.5%, and 5%, respectively. When combined, with the zero coupon EUR500 million convertible issued to the seller, and short duration low rate bank financing, we expect the average coupon to be about 4% on a book basis, and in the 3%s on a cash basis. Thus, the only steps remaining prior to closing the transaction are regulatory clearance from the EU and Serbia. We expect to complete these steps, and close the acquisition before the end of the second quarter.

With that as an overview, I'll turn it over to Stewart to give first-quarter financial highlights, and a perspective on the balance of 2012. Stewart, over to you.

Stewart Glendinning - *Molson Coors Brewing Co. - Global CFO*

Thanks, Peter. Hello, everyone. In first quarter financial highlights, on the bottom line, underlying after-tax income of $85.3 million or $0.47 per diluted share was 4.5% higher than the year ago, driven by positive beer pricing and sales mix across our Company. Underlying EPS increased 9.3%. Regionally, pretax equity income from MillerCoors drove our bottom-line performance in the first quarter, with a 16.8% increase on the strength of solid pricing and sales mix, along with continuing cost reductions.

With respect to the US, we also know that there are some timing impact of spending in marketing, which we expect to reverse in the balance of the year, and especially in the second quarter. Canada results were negatively influenced by approximately $4 million of one-time benefits realized in the first quarter of 2011. In the UK, increased marketing investment, weaker off-premise pricing, primarily driven by customer mix, combined with lower volumes and input inflation negatively impacted our results.

In addition, both the UK and Canada results were affected by increased defined benefit pension expense of $6.6 million in total. Worldwide beer volume from Molson Coors decreased 0.4% due to lower volume in the UK and Canada, partially offset by 24% STR growth in international.

For the first time this quarter, I will provide some consolidated non-GAAP results that include our portion of MillerCoors. On this basis, total Company net sales increased 1.9% in the first quarter, driven by the US, Canada and International. Net sales per hectoliter increased 2.7% in the quarter, primarily due to solid pricing across our Company, and the addition of NAB contract brewing revenue in Canada.

Cost of goods sold per hectoliter increased 2.5%, due to input cost inflation, higher pension expense, and the addition of contract brewing volume in Canada. Input inflation accounted for more than three-fourths of the COGS increase, and was largely driven by agricultural materials, packaging, and fuel costs.

Total Company gross margin was 37.9%, 10 basis points higher than a year ago, primarily due to solid pricing. Marketing, general, and administrative expense increased 4% due to higher pension costs and non-core StarBev transaction expenses, along with increased brand investments in the UK and international, and cycling one-time costs in Canada.

Excluding non-core StarBev expenses and Canada one-time costs, the MG&A increase was only 1.5% in the quarter. Underlying operating margin was unchanged at 9%, with the increase in US operating income offset by declines in Canada and the UK. Please see the earnings release we distributed this morning for a detailed review of our business unit financial results in the quarter.

It is important to note that our first-quarter underlying earnings excludes some special and other non-core gains, losses, and expenses that net to a $6.4 million pretax charge. These adjustments to our US GAAP results are described in detail in this morning's earnings release.

In the first quarter 2011, our Resources For Growth Two cost reduction program delivered $10 million in savings for the quarter, and a total of $136 million in savings since the program began over two years ago. Regarding cash uses, we did not repurchase shares during the [third] quarter due to the potential -- and we did not expect further purchases until our debt ratios are closer to our pre-StarBev levels.

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Looking forward, regarding our 2012 guidance, we now expect our total Company 2012 defined benefit pension expense to be approximately $70 million, including our portion of MillerCoors pension expense. This total expense is about $12 million higher than 2011 on an underlying basis, primarily due to lower long-term interest rates, with higher expense in the UK and Canada, offset by lower expense at MillerCoors. Meanwhile, we expect to -- we continue to expect total cash contributions to our pensions to be in the range of $100 million to $120 million this year, up from $50 million in 2011 due to increased contributions in Canada, and MillerCoors in the US.

Our outlook for capital spending, corporate interest expense, MG&A expense, and corporate and effective tax rate have not changed from our last earnings call. Please note that all of these forward-looking statements exclude the StarBev business and related transaction and financing costs, as the acquisition has not yet closed. We plan to update our outlook to include StarBev later in the year, after we have closed, and reported US GAAP pro forma financial results for the business.

Looking forward, there are a number of considerations for our balance of the year financial performance. Regarding our cost outlook, in Canada for 2012, we continue to expect our all-in cost of goods sold to increase at a mid single digit rate per hectoliter in local currency, with the result weighted toward the first half, due to the cost of NAB contract volume being largely absent from the first-half results last year.

In the US, we continue to expect MillerCoors COGs per hectoliter to increase at a low single-digit rate for the full year 2012. In the UK, we now expect our full-year COGs per hectoliter to grow at a mid single-digit rate in local currency, down from high single-digits on our last earnings call. This change in expectation is primarily due to reduced sales forecasts below margin factored beverage sales this year.

Most of the annual COGS increase in the UK is expected in the second quarter, due to planned brewery redevelopment costs. We expect this redevelopment to drive significant operations efficiencies in the years ahead. We expect higher pension expense of about $15 million in Canada, and $10 million in the UK. For the balance of the year, we are investing incrementally in our brands and innovation to drive better performance in the years ahead. Marketing investments are planned to be about $30 million higher across Canada, the UK, and International. Marketing spending will also be higher in the US for the balance of the year.

In other outlook, in the UK we expect the Euro Football championships to accelerate volume from the third quarter to the second quarter. As I mentioned earlier, we don't anticipate any stock repurchases this year, as we focus our cash use on paying down debt. Later this year, we will be cycling lower employee incentive expense, and the 53rd week sales in Canada and the UK.

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

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Thanks, Stewart. So in April, we rolled out Coors Light Iced Tea across Canada. And in June, our beer premium portfolio will be strengthened through the addition of the Newcastle and Strongbow brands. In the US, we have strong marketing and sales programming behind our key brands this year, leading into the peak season, especially for Miller Light, Coors Light, and Miller 64. We are also introducing or testing a range of new brands, and we are rolling out a full slate of innovative packaging, including the Miller Light punch top can to help build our existing brands.

In the UK, Carling Chrome and Carling Zest will receive increased marketing support, as will Coors Light to extend its current strong double-digit volume growth.

The 2012 investment in our international business will be similar to last year, with phase-in buys through the first half of the year. Our overriding international goal remains to build this group of businesses quickly, and to reduce our investment per hectoliter, so that our international group becomes a significant contributor to total Company profitability by 2015.

Finally, the following are the most recent volume trends for each of our businesses early in the second quarter. In Canada, our sales to retail for the first four weeks of the quarter declined at a mid-single digit rate versus 2011. In the US, for the four weeks ended April 28, STRs declined to a low single-digit rate on a trading day adjusted basis. In the first four weeks of the quarter, our UK STRs decreased at a high single-digit rate. And in the first four weeks, our international STRs have increased at a low double-digit rate. As always, please keep in mind that these numbers represent only a portion of the current quarter, and trends could change in the weeks ahead.

So when we measure our first quarter against the three pillars of our strategy that we laid out for the first time at our Investors Day in New York last year, we have grown profitability in our core markets, but only because of an exceptional quarter in the US. While the Canada market showed signs of improvement, we need to improve our gross profit margins. And while we increased share over in the UK, the issue remains one of market performance.

International growth is in line with our plan, and we expect the acquisition of StarBev to improve our growth market exposure, while delivering returns that will grow shareholder value. And as discussed in New York, our primary focus continues to be on the improvement of total shareholder returns in our core business.

Now before we start the Q&A portion of the call, two quick comments. Firstly, 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, with a -- which is an opportunity for you to ask additional questions regarding our quarterly results. And our call will also be available for you to hear via webcast on our website.

Second point I would just like to reference, is that we did announce some personnel changes today. Namely, that Mark Hunter will be moving from the UK to run the StarBev business, subject to satisfactory close and regulatory approvement. Stewart Glendinning, our CFO, will be moving to run the UK and Ireland business, and Gavin Hattersley will be moving from our US business to join as the CFO of Molson Coors. I would just like to congratulate all of three of those on the moves, which are thoroughly deserved.

So with that, I would like now to open it up for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

And your first question comes from the line of Judy Hong with Goldman Sachs. Your line is now open.

Judy Hong - *Goldman Sachs - Analyst*

Thanks. Good morning, everyone.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Hi, Judy.

Judy Hong - *Goldman Sachs - Analyst*

First, just in terms of Canada, so in Q1 STR down 0.5%, but competitively, it looks like you lost market share. So first, maybe you can talk about the competitive performance, and how would you sort of assess your market share performance in Q1? And then, just in terms of the April trend being down mid single digit, how much of Q1's strength was sort of weather-driven, and why do you think April weakened, understanding that month-to-month there could be some volatility there?

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Thanks, Judy. Yes, let me cover the different aspects, and let me start first with industry performance in Q1. On our fiscal basis, it was up about 1.3%. If you look at it on a calendar basis, it was up over 3%. Weather, was certainly a positive factor during the quarter. Timing of Easter accelerated some volume from Q2 into Q1. And so, it's our third consecutive quarter of industry growth now, so we're actually feeling good about that. We actually look like we outpaced the total beverage alcohol category in Q1 as well, so some positive things on the industry. But I do want to acknowledge the role of Easter and weather in that.

On our market share performance, and specifically, Judy, Coors Light and Molson Canadian both grew in the quarter, as did our above premium portfolio. Our non-strategic brands declined, consistent with what I talked about last quarter. But that was largely offset by strategic brand growth everywhere but the West. And it's in the West, that our share decline was concentrated.

In the West we achieved really strong NSR per hectoliter growth, as we moved our value brands up, and we shifted our promotional activities to less costly packs. But there's no doubt that came at the expense of share and volume. So, we're just rebalancing that now.

And as we look to April then, and the mid single digit decline in volume, I would say that Easter would certainly be a consideration in that, with the acceleration to Q1. We had very cold weather in our major Eastern markets through the month. And I would say that our price competitiveness in the West, the factors that I just talked about, continued on into April, and will likely continue on in the early part of May, as well.

Judy Hong - *Goldman Sachs - Analyst*

So, Dave, just following up on that. So, I guess can you maybe quantify how much non-strategic brands were down? And kind of how should we think about that portion of your portfolio, just in terms of -- as you see the decline in those brands, shouldn't we see better, maybe pricing and better profitability? I understand in Q1 there's a lot of noise in the COGS line, but it seems like maybe you are not getting sort of the benefit of decline in some of non-strategic brands at the profit line.

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Yes. I mean the decline of the non-strategic brands -- I think the important thing to understand about those brands, is they are actually quite profitable, because there is low levels of support on them. They tend to have NSR similar to our mainstream brands. But at the bottom line, the contribution is quite strong. Really, the challenge for us -- and I think I mentioned this at the last quarter, as well, is for us to get both innovation and core brands growing at a rate, that it more than offsets what's happening on our non-strategic brands.

Non-strategic brands would be in and around 10% of our total business. There's nothing that we want to do, by way of attention there, to try to prop them up. It's really about leaning hard into our strategic brands. That's what we're doing. I think other than the challenge we've had in the West, pretty happy with what I've seen East of the Manitoba border in Q1.

Judy Hong - *Goldman Sachs - Analyst*

Okay. And then just on the StarBev acquisition, maybe just taking a step back, and talk more just from an organizational capability perspective, because obviously, most of Coors have gone through some mergers and acquisitions with Molson and others. And I'm just wondering, just based on your experience, just looking back, some of the lessons that you have learned, and sort of identifying, what the right level of marketing spend.

And why do you think that the marketing investments in the StarBev business is appropriate, and whether we should really not expect an even bigger step-up, in terms of the brand investment. And you're making some personnel changes here, so any risk to as you're looking at the acquisition, at some of the organizational changes, and how you sort of keep the core business improving, because that seems to be still your key focus? At the same time, you are obviously trying to implement this large sized acquisition.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Okay, Judy, I'll try and answer all of that if I can. Let me take the personnel and organization changes first. We are in a very fortunate position to be able to announce the changes that we've made, because, obviously, very capable people. The reality is, that I could have chosen at least another three or six people to have done those roles. And the one thing I think we have done over recent years, is build up a huge strength of depth -- strength in depth, I'm sorry, of people. Now that goes to the overall teams, as well.

So, as a leader of the business, I have to make sure that if anything happens to any of our business unit leaders, be it Dave, Mark, or anyone else, in some sort of crisis that we have got people that can step in, but also, the teams below them, that are very, very capable of running the business. And that's what we have. So, as far as the existing business is concerned, I'm absolutely confident that there will be -- we won't miss a heartbeat.

As far as the StarBev business is concerned, I think we mentioned when we made the acquisition that we were very impressed with the management team over there. I have been over there to speak to all of the management team, and even this morning, we were on a call, and the message there very clearly is business as usual.

So again, with Mark moving over to lead that business, Ï don't think we will miss a heartbeat. Their plans are laid out. We know what their plans are, and we went through their plans in due diligence. We have got a strong belief in their plans, and their ability to achieve them. So really, I think that's a strength, as far as we're concerned. And as you say, we've been through this process quite a few times in recent years.

Specifically on the marketing spend, we did, as you would expect a huge amount of due diligence, market by market, brand by brand. And obviously, one of the things that we looked at was the relative spend of the StarBev business against the competitive bench, and also the performance of brands by market. And based on that, we made some assessments which we think are very realistic about how much we would need to put behind the brands.

And this is really, market by market. It's not a layered approach, it's very specific to brands by market. And so again, we are very confident that the numbers we have in, are the correct amount. And we don't believe there will be any need to increase them. Does that --?

Judy Hong - *Goldman Sachs - Analyst*

Okay.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Did that answer your question?

Judy Hong - *Goldman Sachs - Analyst*

Yes. That's helpful. Thank you.

Operator

Your next question comes from the line of Mark Swartzberg with Stifel Nicolaus. Your line is now open.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Thanks. Good morning.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Hi, Mark.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Peter or Dave, could you give us an update on how Coors Light Iced Tea is going in Canada, and where your head is on the opportunity for that innovation in the US?

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

I'll take the second part about, no, actually, what I'll -- Tom, do you want to take the second part of that up front, and then we will pass it along to Dave?

Tom Long - *Molson Coors Brewing Co. - CEO, MillerCoors*

Sure. We're watching the rollout of Coors Light Iced Tea very carefully, and of course, we borrow with no pride at all. We are eager to sponsor successful products across the country, and Coors Light Iced Tea in Canada is a great innovation that we are watching carefully. So, we would be prepared to launch it, given success, and as we learn about how the drinker base works. So, we are watching that closely.

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Yes, Mark, it's Dave. It's not a very robust update to give. I mean, we're in full distribution now. Above the line marketing support started April 23, so it's quite recent. Certainly, all the indications that we're getting in the early days are positive. We're seeing the numbers come in where we'd hoped to. We are achieving the pricing that we had hoped to, on the brand. It is very early days though.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay. Fair enough. Thanks. And then, I wonder, Peter, if you could just talk sort of philosophically, about marketing spend as we think beyond 2012. You are going to own StarBev. You have called out for two quarters now, the intention to really up the level of spend in markets other than the United States. So, as you think about how you prioritize spend, I guess my two questions are, it seems like the US is a laggard, at least in 2012, in terms of rate of increase. So, is that something we should view as kind of a strategic statement, or is it just kind of an anomaly for the year? How are you thinking about how you allocate these dollars on a multi geography basis?

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Okay. Well, I think over the full year, again, I will let the US team speak to it, we are looking -- we will be looking to increase marketing spend from here on in. So Q1 should not be indicator of the future, and I think Tom and the team talked about this morning, but I will let them jump in later on if they want to. As far as this year, when looking forward is concerned, Mark, the -- we really tried to link this year's increased expenditure to two issues.

One was an increased innovation pipeline. And we see that innovation pipeline being pretty full for three years, and so we would see this as a re-base if you like, looking forward. But also, some of that money will also go in our core brands. So we're -- I think we have got it to a level this year, where we want to get it to you looking forward. As an indicator, obviously, that will move around at the margins, plus or minus X%, obviously. But that would be, really the way we are thinking about it. Tom, do want to add anything on the US?

Tom Long - *Molson Coors Brewing Co. - CEO, MillerCoors*

No, I don't think so. I think that captures our position. Thank you, Peter.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

And am I -- as I understand it, the percentage increases are much more dramatic outside the US, even once you factor in the full-year plans for the US. Is that a fair understanding? And can you just speak to that, as an indication of priorities by region?

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Well, I don't think it reflects priorities. I mean, it will be a much higher percentage, because the US base is considerably higher than either the UK or Canada. If you look at our marketing expenditures, percentage of turnover, though, I think you'll find that we are trying to catch up in some of the other geographies compared to the US. So, I think overall, we are in a pretty good position geography by geography.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Okay. Thank you.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Thanks.

Operator

Your next question comes from the line of John Faucher from JPMorgan. Your line is now open.

John Faucher - *JPMorgan - Analyst*

Thanks. In general, Eastern Europe is viewed as somewhat of an emerging market. And I guess, the only issue becomes with beer, you have got a much higher per capita consumption to start with. So, can you talk about, sort of how we should view the development of Eastern Europe from a beer standpoint? And as we look at your growth expectations going forward, where can per capita consumption go? Where can pricing go? Where can market share go? Because most of these countries at this point seem relatively well-developed. Thanks.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Okay. Thanks, John. A couple of things. I think the per capita consumption does vary country by country, and we are in actually 9 different countries. So that's the first point I would make. Everything that we've seen in these countries, because as you say they are somewhat emerging markets, reflects the fact that the per capita consumption is, there is a very, very strong correlation between that and GDP growth.

And so, you have to take a view on what is going to happen to the GDP growth in these countries. And yes, it's going to be volatile, but over the -- if you average it out, looking forward over the next five to ten years, we see that as a positive trend. And so really, that's the background to it.

John Faucher - *JPMorgan - Analyst*

Okay. So I guess, if you look at this, can you talk about then maybe getting down to some of the more specific countries within the StarBev acquisition? Czech, obviously, very high per-capita consumption, low market share there. Where do you line up well, in terms of maybe high market share and growing per capita consumption, or highe per capita consumption and low market share, to try to understand where the opportunities are?

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Yes, I think it's probably -- in terms of detail, because we are talking about nine countries and a multiplicity of brands, Dave can pick the real detail up on that later on. But if I was to give you a background, I mean, as I mentioned, we have got the number one brand in 5 of the markets that we are talking about.

And within that 5, there are a good number where we see opportunity to continue to grow our market share position, or certainly hold it and improve value around that piece, and also see improvements within the overall velocity of the market. So, we're comfortable that there is opportunity. It does vary market by market, but Dave can take you through the detail of that, later on if you like.

John Faucher - *JPMorgan - Analyst*

Okay, thanks.

Operator

Your next question comes from the line of Brett Cooper with Consumer Edge Research. Your line is now open.

Brett Cooper - *Consumer Edge Research - Analyst*

Thank you. You talk about being less price competitive in the West in Canada. Can you talk about how you got there? Was it discounting, or did you take price up and it wasn't followed? And then finally, is it safe to assume that since you talked about -- not to put words in your mouth -- but basically, rolling back on price, should we see price decelerate over the back end of the year, or is there an offset?

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Yes, okay. In the west, what we did is, we moved our value brands up, certainly at a rate higher than the rest of the market in any of the GPI's. So, we are trying to close the gap, between our value brands and our mainstream. In addition, a lot of the promotional activity in the West is happening in fairly expensive SKUs, and so we attempted to shift that to less costly SKUs.

That worked in part, but it didn't work the way we wanted it to, because it wasn't a general market move, and we haven't seen the market move that way. So, we are finding ourselves less competitive now, and that's why we're rolling back. In terms of the impact that it will have on NSR going forward, I wouldn't characterize it as particularly material on a national basis. Certainly, in the West, it will have some impact.

Brett Cooper - *Consumer Edge Research - Analyst*

And so -- can I just follow up? On the value brands, you moved up, and did -- is it fair to say, competition didn't follow?

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Yes. We found ourselves uncompetitive after having moved up, so our value brands ended up above the market.

Brett Cooper - *Consumer Edge Research - Analyst*

Great. Thanks.

Operator

(Operator Instructions). Your next question comes from the line Bryan Spillane from Bank of America. Your line is now open.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Hi, good morning.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Good morning, Bryan.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Just a couple of questions. First, I just want to make sure I understood the pension expense increase correctly. It's going to be -- it's a $12 million incremental expense relative to last year. Is that just for the UK and Canada, or that is including the offset from the US?

Stewart Glendinning - *Molson Coors Brewing Co. - Global CFO*

No, that includes the offset from the US.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. And the UK and Canada specifically are $25 million higher combined?

Stewart Glendinning - *Molson Coors Brewing Co. - Global CFO*

Yes, that's correct, $25 million combined.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

And then the $6.5 million of higher pension costs that you referenced earlier in the call is just the UK and Canada, right? That matches -- that's basically phasing in the $25 million in the UK and Canada?

Stewart Glendinning - *Molson Coors Brewing Co. - Global CFO*

Yes. That's correct. That's -- the $6.6 million is for the first quarter.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay, okay. And so, and then, I guess more broadly, as you went into this year in your core markets, basically the expectation, or the plan is to basically drive more volume growth, in order to drive the P&L. And I guess, you factor out the weather in the US in the first quarter, which helped in the US, and maybe to an extent it helped in Canada as well; is there anything just, in terms of the overall environment that has changed your thinking at all, in terms of your ability to do that? Is the consumer any better or worse than it was, when you set your original plan? Just want to try to get a sense for how you feel about your plans, and sort of what the environment is willing to give, in terms of a more volume-driven plan.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Okay. So I mean, obviously not just volume, it's balancing the volume with the NSR growth, is what we would be trying to do, Bryan. But if I try and encapsulate it, I would say that we have been -- all things being equal, probably cautiously pleasantly surprised with the US and Canada. The market has probably done better than we expected. To be honest, no idea whether that will continue, but that's what we would say, and probably the UK has been the same as we expected, which is difficult.

So that's the sum of it. I mean, before April, I think we would have been a bit more positive, but you have seen the numbers in April. And so, it really reflects consumer trends at the moment. It's pretty volatile, to be honest with you. But overall, yes, I think Canada and the US is more probably more positive than we expected.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

And fair to characterize that the effect of -- the first quarter didn't really see a full effect of all of the marketing and product innovation that you have got planned. I mean that's part of driving the NSR.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Yes.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

So, we are not really seeing the effect of what you are investing to drive that, that better revenue growth. Is that fair characterization?

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

It's, yes, absolutely fair to say that our market, both from a marketing investment line on our core brands, but also from innovation, really we should see the major benefit of that, in the remaining -- in the remainder of the year.

Stewart Glendinning - *Molson Coors Brewing Co. - Global CFO*

And Bryan, I'll just add to that by saying that, of course the first quarter is a slower quarter than any of the others. And second, as Peter highlights, a good deal of our investment has gone behind new innovation. And as always, that innovation has some ramp up period that is important for you to consider.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. And then just finally, Peter, I guess since the StarBev acquisition was announced the stock has -- your stock has underperformed. And I guess if I can encapsulate it, I guess there was a disconnect in terms of what you're seeing in terms of the value in StarBev versus what maybe the market

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was hoping for, whether that was a dividend or a bigger share repurchase or some other use of the capital. Can you just talk to how you viewed that difference, in terms of where the value lies in StarBev, relative to doing those other kind of capital return options?

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Yes, I mean, what I can say, Bryan, is that really over the last three years plus, we have consistently examined with our Board the best way to use any cash that we have at any point in time. And we have always judged the usage of that cash, against total shareholder return in the medium to long term. And as we announced a year ago, it was appropriate to use our cash for share buybacks, because there was no other option on the table.

When StarBev came up, it was an option at the price we bought it at, which was below 11 times EBITDA multiple. It really satisfied all the financial criteria we laid out. And both in our estimation, and the Board agreed, over the medium to long-term that was a better way to use our cash.

It will be much easier to talk about StarBev and the fine detail, when we actually own the business. But you understand at the moment, we are bound by confidentiality. So, I think a lot more will become clear, when we will be able to talk in more detail, as to our beliefs and our rationale. So, I would ask you just to be patient on that for a little bit longer.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. Thank you, Peter.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Thanks.

Operator

Your last question comes from the line James Watson with HSBC. Your line is now open.

James Watson - *HSBC - Analyst*

Good morning, everyone. I just wanted to follow up on Canada and the market share loss. I was actually surprised, when you said that the non-strategic brands were -- kind of had a similar profitability, similar bottom-line effect. I wanted to find out what -- how do you define your strategic versus non-strategic brands? Are you okay with the share loss, assuming that it's all in non-strategic brands, and your strategic brands are maintaining or gaining share?

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Okay. Yes, let me take a crack at that, James. I mean the way that we define a strategic brand, is essentially one that we are investing behind to maintain or grow for the future, and there's about a dozen brands that would fall into that camp. The non-strategic brands are brands that we are either fully harvesting or that we may be spending a little bit on to moderate the decline in some cases, but generally they are harvest brands. And for us, what's important is really to have a stable to growing market share over time.

I mean, we want a portfolio that is capable of ensuring that we are competitive within the category. And so, it's important to us that our supported brands, our strategic brands do get to a point where they are fully offsetting, and more than offsetting the decline of those non-strategic brands.

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Now, some of our strategic brands also have premium -- above premium pricing. You know that we have a strong above premium portfolio, but even if you look at our innovation like Coors Light Iced Tea, that is coming in at an above mainstream pricing, and above premium pricing. And so, that will have a beneficial impact on our NSR and on our margins.

James Watson - *HSBC - Analyst*

So, that's something where, even if the share loss is coming from lack of the non-strategic, we should still be seeing kind of mix benefits and gains through higher priced brands?

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

Yes. I mean, look, over the longer term, what we're attempting to do in our portfolio is ensure that the kind of segment shifts that we see happening in the market don't disadvantage us. So over time, we see the mainstream segment declining, the above premium increasing, and the value segment tends to vary. Generally, it has trended up, but there are times when you will see it reverse itself. We need to have fair share within each of those three pricing segments, so that as the market shifts, it doesn't mathematically cause our market share to decline.

And then within the portfolio, we want to push the premiumization. Premiumization is the growth of the above premium segment, but it is also the kind of innovation we do in the mainstream segment. So I don't consider Coors Light Iced Tea a true above premium brand, but it is commanding a price index that is very attractive to us. And so, within the mainstream, to the extent that we can push towards higher-priced products, we will.

James Watson - *HSBC - Analyst*

So, is it fair to say that your marketing investment kind of matches your outlook there, in terms of above premium being higher growth, so you would have a little bit over index, in terms of marketing on that segment?

Dave Perkins - *Molson Coors Brewing Co. - CEO, Molson Coors Canada*

That would be fair. Although I would emphasize that the investment that we make behind Coors Light and Canadian, which are our power brands that are absolutely critical to keeping our breweries running and maintaining our bottom line, get very healthy investment.

James Watson - *HSBC - Analyst*

Okay. Great. Thank you very much.

Operator

And there are no further questions at this time. I will turn it back for any closing comments.

Peter Swinburn - *Molson Coors Brewing Co. - President and CEO*

Okay, thanks, Steve, and thanks, everybody, for joining us today, and for your interest in the Business. And we look forward to speaking to you again at the end of our next quarter. Thanks very much.

Operator

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