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Molson Coors Beverage Co. (TAP)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Molson Coors Beverage Company First Quarter Fiscal Year 2021 Earnings Conference Call.

You can find related slides on the Investor Relations page of the Molson Coors website.

Our speakers today are Gavin Hattersley, President and Chief Executive Officer; and Tracey Joubert, Chief Financial Officer.

With that, I'll hand it over to Greg Tierney, Vice President of FP&A and Investor Relations.

Greg Tierney

Vice President, FP&A and Investor Relations, Molson Coors Beverage Co.

Thank you, operator, and hello, everyone. Following prepared remarks from Gavin and Tracey, we'll take your questions. Please limit yourself to one question. And if you have more than one question, please ask your most pressing question first and then re-enter the queue to follow up. If you have technical questions on the quarter, please take them up with the IR team in the days and the weeks to follow.

And today's discussion includes forward-looking statements. Actual results or trends could differ materially from our forecasts. For more information, please refer to the risk factors discussed in our most recent filings with the SEC. We assume no obligation to update forward-looking statements. GAAP reconciliations for any non-US GAAP measures are included in our news release or otherwise available on our website. And also unless otherwise indicated, all financial results the company discusses are versus the comparable prior-year period and in US dollars.

So with that, over to you, Gavin.

Gavin D. K. Hattersley

President, Chief Executive Officer & Director, Molson Coors Beverage Co.

Thank you, Greg, and thank you all for joining us today. Let me start by stating the obvious. The first quarter was not the quarter we expected to have. That reality was driven by three events: cybersecurity incident that caused the global system outage; a freak winter storm in Texas that forced utility companies to shut off power to major businesses, including our Fort Worth brewery; and government pandemic restrictions that shut down the entire on-premise channel in the UK and severely restricted much of the on-premise in Canada.

To say that all of these events happening in a single quarter is unprecedented would be an understatement. So while we can't control the weather, across the business, we executed well on what was in our control. That's true of how we responded to each event.

Our team quickly implemented contingency plans to boost production and get our core brands back to a stable inventory before Memorial Day. And right now, we are shipping over 1 million barrels a week in the United States for the first time in nearly a year. But most importantly, it's true of how we are executing on our revitalization plan.

During the first quarter, Coors Light and Miller Lite outperformed the combination of Bud Light and Michelob Ultra in US industry share performance versus the prior year according to IRI. Our US above premium portfolio grew brand volumes versus the prior year and continue to gain industry share according to IRI, and we took substantial steps towards our hard seltzer ambition.

Our Truss joint venture's non-alcoholic cannabis beverages are holding strong as the number one dollar share spot in the entire Canadian cannabis beverage market. As expected, the availability of our 12-ounce standard cans returned to normal levels. And we continued working to protect the environment, through two significant initiatives in the United Kingdom.

So let's look deeper at each area. Let's start with our core. We will continue to see improving brand volume trends for Coors Light and Miller Lite in North America over the past quarter, thus trailing off strong performance in 2020. But the performance is even more impressive when you look at our biggest brands and our biggest family of brands.

Coors Light finished the quarter with its strongest category share performance since Q1 of 2017, and Coors Banquet posted its best quarterly volume performance in over four years in the United States.

We're building on that strong performance in the Coors family of brands with the launch of Coors Pure in March, our first USDA certified organic beer brand. And we had a strong Q1 in Panama with over a 50% increase in brand volumes with Coors Light's explosive triple-digit growth leading the way.

Now, when it comes to our plans to aggressively grow our above premium portfolio, as you know, we have big ambitions for hard seltzers this year, and the first quarter was a big one. And as we sit here today, our share of the US hard seltzer segment is over 50% higher than it was at the beginning of the year.

In a single week, Topo Chico Hard Seltzer jumped to a 3.2 share of the US hard seltzer category, despite only launching in 16 markets and have achieved a 20 share in Texas. Now I know it's early days, but that is a stunning fact that speaks to the opportunity with this brand. And it's not alone in our portfolio. Vizzy was IRI top 10 US industry growth brand in Q1.

We are building on that with the brand's second variety pack, which launched in March, and the new Vizzy Lemonade, which launched several weeks later. They are both performing well. And in fact, Vizzy Lemonade is the second fastest turning hard lemonade seltzer in the market. We made significant headway with our hard seltzers in Canada and in Europe as well.

After just over a month in market, Vizzy and Coors Seltzer are top five hard seltzer brands with some of the leading Canadian retailers. In the UK, our new Three Fold hard seltzer brand is launched, while our new brand Wai in Central and Eastern Europe is launching in the coming weeks.

In above premium beers, Blue Moon LightSky is the number one new item in US beer last year is currently the number one share gainer in US craft beer in 2021. And Hop Valley has made its official national debut in the US and Canada. It's our first national IPA in the US, and we believe it will be another driver of growth for our above premium portfolio.

When it comes to our plans to expand beyond beer, last year, we made a lot of news as we took on a number of partnerships to build a competitive portfolio. This year, it's all about executing on those plans. ZOA gives us a strong entry into the $16 billion US energy and performance space and is positioned to take a meaningful share of the category within a matter of months. It's just now beginning to hit shelves.

But by Memorial Day, we expect ZOA will have over 80,000 points of distribution. And by the end of summer, that number is expected to climb to nearly 150,000. La Colombe gives us the number one above premium player in the RTD coffee space, and I'm excited to report that we are ahead of plan on all of our distribution targets.

Truss Canada, our Canadian cannabis joint venture with HEXO is holding strong as the number one dollar share position with six of the top 10 cannabis beverage SKUs in Canada. And our Truss USA joint venture is building on that through their first lineup of hemp-derived CBD beverages in Colorado. And we have now entered the fast-growing RTD cocktail space through an exclusive equity and distribution agreement with Superbird, an above-premium tequila-based Paloma. This entire lineup represents tremendous growth for our business and is helping us drive our emerging growth division towards a $1 billion revenue business by 2023.

Last, but certainly not least, is how we are investing in our capabilities, our people and our communities. We have long been recognized as a leader for our environmental efforts. And several weeks ago, we became the first major UK brewer to operate entirely by renewable energy. Soon, every one of the 1 billion pounds of beer we produce annually in the UK will be made with 100% renewable energy. And we didn't stop there. We're removing plastic rings from all of our major brands across the UK.

In the US, this month, we announced our investments in TRU Colors, a North Carolina-based brewery that was founded on the premise that aligning rival gang members under the same roof with a common goal to both mitigate street violence and create economic opportunity.

We're excited to share our knowledge on brewing, brand positioning and supplier relationships, and we are excited to be part of a business that is driving positive change in creating economic opportunity.

Now, I can assure you the events of this quarter are not lost on any of us. But as the quarter came to a close, there is land on the horizon. The on-trend gradually began to open back up in the UK. Our industry standard can inventory normalized, and our weekly shipments in the US topped 1 million barrels for the first month in nearly a year.

We are making progress on the things that are within our control, and we are delivering against our revitalization plan. And that is what gives me the confidence to reaffirm our guidance for the full year. That is what gives me confidence in the current expectation that the Board will be in a position to reinstate a dividend in the second half of this year. That is what gives me confidence that we'll achieve long-term top line growth, and that is what tells me the future of Molson Coors is bright.

Tracey?

Tracey I. Joubert

Chief Financial Officer, Molson Coors Beverage Co.

Thank you, Gavin, and hello, everyone. Despite the challenges Gavin mentioned, we are proud of our operational agility and resilience as we have deeply managed through these challenges while still continuing to execute our revitalization plan.

Now, let me take you through our quarterly results and provide an update on our outlook. Consolidated net sales revenue decreased 11.1% in constant currency, principally due to lower financial volumes, which declined 12%, while brand volumes declined 9.1%.

We delivered net pricing growth in North America and Europe as well as positive brand mix in the US as we continue to premiumize our portfolio. However, this was more than offset by the on-premise restrictions due to the coronavirus pandemic and the corresponding negative channel mix as well as the unfavorable shipment timing in the US related to the cybersecurity incident and the Texas winter storms.

Net sales per hectoliter on a brand volume basis increased 1.8% in constant currency as the net pricing growth more than offset the negative mix effect in Canada and Europe.

Underlying COGS per hectoliter increased 5.6% on a constant currency basis, driven by cost inflation and volume deleverage, partially offset by cost savings. Driving cost inflation was higher transportation costs due to the continued tightening of the freight market in North America as well as higher can sourcing costs as we continue to source additional aluminum cans from all over the world to address the significant off-premise demand for our core brands.

MG&A in the quarter decreased 15.9% on a constant currency basis, driven by lower marketing spend and discretionary expenses as well as cost savings. While the timing of our marketing investments was adjusted in areas impacted by the pandemic, we continue to invest as planned behind our core brands and key innovations. As a result, underlying EBITDA decreased 20.2% on a constant currency basis.

Underlying free cash flow was a use of $271 million for the quarter, an increase in cash use of $54 million from the prior year period, driven by lower underlying EBITDA and unfavorable working capital driven by the timing of payments related to lower volumes, prior year non-income tax deferrals due to governmental programs related to the coronavirus pandemic and incentive payments, partially offset by lower CapEx spend.

Capital expenditures paid were $103 million for the quarter, which were largely focused on our previously announced Golden brewery modernization project. Capital expenditures were lower in the quarter compared to the prior year, primarily due to project timing.

Now, let's look at our results by business units. In North America, our markets experienced varying degrees of on-premise restrictions. In the US, our largest market, we saw progressive reopenings. And while there has been sequential improvement in the on-premise channel, we are still not back to pre-pandemic levels. In Canada, we saw significant restrictions and closures, while in Latin America, we saw restrictions easing.

North America net sales revenue was down 6.3% in constant currency due to financial volume declines of 9.4%, reflecting lower brand volume due to the on-premise restrictions impacting the March pantry loading in the prior year as well as unfavorable shipment timing in the US.

In the US, brand volumes decreased 7.3% compared to domestic shipment declines of 9.5%, driven by the economy and premium segments. However, our US above premium brand volumes grew versus the prior year, and the segment reached a record high portion of our portfolio relative to any prior year first quarter since the creation of the MillerCoors joint venture. Canada brand volumes declined 10.8%, primarily due to the on-premise closure, while Latin America brand volumes grew 10.8%.

Net sales per hectoliter on a brand volume basis increased 2.4% in constant currency. In the US, net sales per hectoliter on a brand volume basis increased 4.1% driven by positive brand mix led by innovation brands, Vizzy, Topo Chico Hard Seltzer and ZOA.

In Canada, negative channel mix more than offset the net pricing increases while Latin America net sales per hectoliter on a brand volume basis increased due to positive sales mix.

North America underlying EBITDA decreased 13.3% in constant currency due to the lower net sales revenue and higher COGS per hectoliter partially offset by a 14.4% decrease in MG&A in constant currency. The increase in COGS per hectoliter was driven primarily by inflation, including higher transportation and packaging material costs, volume deleverage and mix impact from premiumization, partially offset by cost savings.

The MG&A decline was mainly due to lower marketing spend and discretionary expenses as well as cost savings. We increased marketing investment behind core innovation brands such as Coors Seltzer, Vizzy and Blue Moon LightSky, and we increased media spending behind our iconic core brands, Coors Light and Miller Lite. These increases were more than offset by lower spend in areas impacted by the pandemic, such as sports and live entertainment events.

Europe net sales revenue was down 39.5% in constant currency driven by volume declines and negative geographic and channel mix due to on-premise restrictions, most meaningfully in the UK given the on-premise lockdowns for the fourth quarter. Europe financial volumes decreased 22% and brand volumes decreased 17%, driven by a significant decline in brand volumes in the UK. However, our Central and Eastern European business has performed fairly well and was able to deliver comparable volumes versus the prior year period.

Net sales per hectoliter on a brand volume basis declined 10.4%, driven by unfavorable geographic channel and brand mix, particularly from our higher-margin on-premise-focused UK business, partially offset by positive pricing.

Underlying EBITDA was a loss of $38 million compared to a loss of $4.1 million in the prior year, driven by gross margin impact of lower volumes and unfavorable geographic and channel mix as a result of the pandemic, partially offset by lower MG&A expenses driven by cost mitigation actions.

Turning to the balance sheet. Net debt was $7.7 billion, down $1.1 billion from March 31, 2020. And we ended the first quarter with a strong borrowing capacity with no outstanding balance on our $1.5 billion US credit facility as of March 31, 2021. As for our UK COVID corporate financing facility, it was closed on March 23, 2021 and we had no outstanding borrowings at that time.

Turning to our financial outlook. We are reaffirming our 2021 annual guidance provided on February 11, 2021. We expect to deliver mid-single-digit net sales revenue growth on a constant currency basis. We are working aggressively to build inventories and expect domestic shipment trends in the US to begin to exceed brand volume in the second half of the year.

For the year, we maintain our current year goal of shipping to consumption in the US. In the US, we expect improving on-premise trends in the second quarter as we less essentially full closures in the prior year. While in Canada, we have seen increasing on-premise restrictions continuing to pressure the on-premise channel.

In Europe, we've seen a gradual opening of the UK on-premise beginning in mid-April to outdoor consumption only, and we expect further phased on-premise reopenings later in the second quarter, resulting in year-on-year improvement versus the prior period.

We anticipate underlying EBITDA will be flat compared to 2020 as growth is expected to be offset by COGS inflationary headwinds, but more significantly from increased investment to deliver against our revitalization plan.

We intend to increase marketing spend to build on the strength of our core brands and support our successful 2020 launches, including Blue Moon LightSky, Vizzy and Coors Seltzer and new innovations like Topo Chico Hard Seltzer and ZOA. With this in mind, we expect significant year-on-year increases in marketing spend over the balance of the year and most notably, in the second quarter.

We expect second quarter marketing spend to be higher than the second quarter 2020 levels and to approach second quarter 2019 levels. We also continue to anticipate underlying depreciation and amortization of $800 million, net interest expense of $270 million plus or minus 5% and an effective tax rate in the range of 20% to 23%.

It also bears reminding that in 2020, our working capital benefited from the deferral of approximately $130 million in tax payments from various government-sponsored payment deferral programs related to the coronavirus pandemic, of which we currently anticipate the majority to be paid this year as they become due.

Our efforts in 2020 positioned us with greatly improved financial flexibility, better enabling us to execute our capital allocation priorities to invest in our business to drive top line growth and efficiencies, pay down debt and return cash to shareholders in 2021.

We plan to continue to prudently invest in brewery modernization and production capacity and capabilities to support new innovations and growth initiatives, improve efficiencies and advance towards our sustainability goals.

Driven by a commitment to maintaining and in time, upgrading our investment-grade rating, we expect to continue to pay down debt and reaffirm our target net debt to underlying EBITDA ratio of approximately 3.25 times by the end of 2021 and below 3 times by the end of 2022.

And in line with our fourth quarter 2020 earnings comments, we currently anticipate that our Board of Directors will be in a position to reinstate a dividend in the second half of this year.

Now, we are pleased with our ability to adapt and overcome despite the incredible challenges we faced in the first quarter. Our continued progress against our revitalization plan, the agility of our organization in the face of challenges and the commitment and resilience of our people give us the confidence we can continue to successfully execute our revitalization plan, driving long-term sustainable revenue and underlying EBITDA growth. And we look forward to updating you on our continued progress.

So with that, we look forward to taking your questions. Debbie?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Vivien Azer with Cowen. Please go ahead.

Vivien Azer
Analyst, Cowen & Co. LLC

Q

Hi. Thank you very much. Gavin, you called out the reopenings in the UK. It sounds like Ireland made some announcements in addition this morning about outdoor, so that's certainly encouraging given how much exposure you have to the UK market. As we look at the comps, the shape of the year is clearly going to be lumpy. But in order to kind of solidly get that business into growth, considering the year-over-year compares on a full year basis for COVID, do you need full indoor reopenings? Or do you think just outdoor, if outdoor can hold, that's enough to get you guys to positive volumes for the year? Thanks.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Good morning, Vivien, thank you. Yes. Look, as you rightly say, the UK did open on April 12, I think it was for outdoor dining at pubs and restaurants. We've seen about 30% to 40% of the establishments reopen. And our volume in those establishments is – all for the UK is up double-digits in the sort of first few weeks of April. I think the next step is on May 17, when indoors opens completely; and then we have June 22, where there'll be a full reopen. So far, just a few weeks into the burn, it's actually been pretty positive, Vivien. Thanks. Debbie?

Operator: Yes. The next question is from Bill Kirk with MKM Partners.

William Kirk
Analyst, MKM Partners LLC

Q

Hey. Thanks for taking the question. I have a follow-up on Topo Chico Hard Seltzer. It seems that after the sell-in that the shelves have been a little slow to replenish. So I guess the question is are you or your contract partners having any difficulty keeping up with demand? And if so, how does that impacts your decision on how geographically broad to offer the product?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Bill. Good morning. Yes, you're right. I mean we had a spectacular launch of ZOA – almost – it's not ZOA, sorry, Topo Chico. And we got to almost a 20 share in Texas. And we got to pretty close to a 7 share of the overall seltzer market in its first week of performance. And as you rightly point out, we've had very strong reorders of Topo Chico. We're working with Coke to increase our supply of Topo Chico. And I think it will be a little constrained as we meet the – I mean the huge unexpected demand for that brand. But as the weeks progress, I think you'll see progressively those shelf spaces being filled. I think it was the right decision for us to go to the limited number of markets that we did, and we won't be expanding that until we're quite comfortable that we can meet the substantial demand that we've had in its existing markets.

William Kirk
Analyst, MKM Partners LLC

Q

Thanks, Gavin.

Operator: The next question comes from Laurent Grandet with Guggenheim. Please go ahead.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Yeah. So a quick one to start with about the Topo Chico phenomenon and just a follow-up from this one. I'm not sure I understand how Coke can help here. I mean is it because you don't have enough, I mean, flavoring and nutrients kind of the concentrate? Or are you – is Coke helping you in terms of signing capacity to manufacturers? I thought it was all manufacturers from the contract manufacturers. So help me understand here the role Coke is playing in fulfilling the capacity.

And my second question is more for Tracey. It's what makes you believe that the Board would be willing to increase the dividend in the second half? And what are the KPIs, I mean, that they are looking for and that we should pay attention to?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Laurent. Look, it was always our intention with Topo Chico that we would take over the relationship and supply chain, which Coca-Cola had established ahead of us entering into our agreement with Coca-Cola. And so we work closely with Coca-Cola and the third-party contractors. I think we've said in the past that it's our intent to sort of keep that relationship at least until the end of the year. I mean we certainly have enough seltzer capacity in our Fort Worth Brewery, given the 400% increase that we made towards the end of last year. So that's the role Coke played. The original relationship was between Coke and the third party, and we just worked closely with Coke and the third party. Trace?

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah. So hi, Laurent. So just in terms of our confidence around our guidance, so we did reaffirm the guidance, as we said. The actions that we took in 2020 greatly improved our financial flexibility, and which better enabled us to execute against our capital allocation priorities, including investing behind our brands and our business to grow top line – to grow our top line to pay down our debt.

And as we said, we paid down $1.1 billion since March of 2020. And so the next lever is to return cash to our shareholders. And as you see consistent with Q4 2020 earnings comments, we do currently anticipate that our Board will be in a position to reinstate the dividend in the second half of the year. And we are having those discussions with them as to when and how we will reinstate that dividend.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks Laurent.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: The next question is from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. So, I just want to follow up on – first, on the MG&A the ability to control, and you had an impressive reduction and the lever to pull through the end of the year to keep your FX-neutral EBITDA flat.

So, wondering if – how long and how many levers you can pull in order to fund the additional marketing spend and so, nevertheless, have fortuitous reduction in basically everything else, I'm assuming T&E and all the other synergies that you have been pulling. So, if you can help us kind of bridge that gap. I guess that's the question for Tracey.

And then also on a follow-up for the dividend is that the way we should be thinking? Is that as you go into the second quarter and you basically go through this plan, you're waiting – the Board is waiting to see if you don't need to revise anything by the second quarter in order to reinstate the dividend? Is that the way we should be thinking here?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

I'll tell you what, Andrea; I'll take the marketing side of your question and then Tracey, if you can handle the G&A and the dividend side of Andrea's question.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thanks, Gavin.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Our revitalization plan, one of its core tenets was that we were going to spend more money behind our core brands, behind our above premium brands and also to extend beyond the beer with above premium.

In the first quarter, we actually did increase our spend behind our innovations. And we also increased the spend behind media on our core brands. In fact, we didn't make any adjustments to our marketing plan in Q1 as a result of the cybersecurity incident or the Texas storm.

We spent what we were planning to spend, particularly behind, as I said, our core brands and our innovations. We didn't plan to spend a lot of money in Europe because of the on-premise closures. And we certainly didn't spend any money, as Tracey said in her opening remarks, on live sports or live concepts in the USA or Canada because there weren't any.

We do expect a substantial increase in marketing, particularly in Q2, returning pretty close to the 2019 levels as we feel the tremendous momentum that we've got behind brands like Vizzy, Topo Chico, our core brands at Miller Lite and Coors Light. And obviously, as Europe starts to reopen, we'll be increasing our marketing spend in Europe in Q2 and beyond as well. Trace, do you want to take G&A and then the dividend?

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

A

Yes. So, Andrea, from a G&A point of view, obviously, there are things like T&E that we're just not spending behind with the restrictions in travel and other targeted cost savings. For example, in the UK, we – the on-premise was locked down for the entire quarter. There were obviously savings related to that as well from a G&A point of view. I also want to remind you that we do have the cost savings program that we announced last year, $600 million over three years.

In 2020, we achieved $270 million of that $600 million, and we expect to achieve in sort of roughly in equal portion the balance in 2021 and 2022. So there is the cost savings, which we are continuing to track very well against that will provide some relief and enable us to carry on it with our revitalization plan and invest behind our brands to grow their top line.

As it relates to the Board, as I said, we are having conversations with the Board. We are assessing exactly when and how we will be or we will be recommending to the Board to reinstate the dividend. So I can't say much more than that, but more to come.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. I'll pass it on.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Andrea.

Operator: The next question is from Chris Carey with Wells Fargo Securities. Please go ahead.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, everyone. I guess, I'm just trying to understand a little bit how this year is going to play out just given what you have kind of mentioned, which I think basically is shipments will exceed depletions, but not until the back half of the year. So that's really where the inventory replenishment starts at Q2 more in line with consumption. So, maybe not getting back all the volume that you lost during the incidents in Q1 in the quarter – in Q2, that is. And then you have expectations for marketing spending, I'll just use MG&A as a proxy in Q2 being up year-over-year and sort of in line with 2019 levels or a little bit below. I think that's what I heard.

And I guess, if I'm putting all that together, I mean, you could see something like MG&A up 500 basis points in North America, for example, and EBITDA implied up kind of double digits in the back half of the year to get to the flat EBITDA. And I know I'm throwing a lot of numbers out there, but the general concept here is that Q2, a slow recovery, if you have the significantly accelerated spend? What happens if the recovery is a little bit slower? Do you pull back on that? And then just confirming this dynamic that it seems like to get to the flat EBITDA, it's really about just delivery in the back half of the year, apologies for more of a financial question, but if that kind of makes sense. I appreciate any perspective on that. Thanks.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Chris. Okay. There's a lot in that question, right? So I mean, obviously, we're not going to give quarterly guidance, the numbers, the guidance that Tracey has given you for the full year, and we'll let that stand on by themselves. From a recovery point of view, we've pretty quickly put a plan in place. We're prioritizing our core brands of Coors Light, Miller Lite, Coors Banquet, Blue Moon, Miller High Life, Keystone Light and Leinenkugel's Summer Shandy. So that's our primary focus at the moment. We've discontinued or de-prioritized our slower-moving brands and packs. Most of that is in the economy space, but also – and some cider.

Now the plan is designed to make sure that we recover our core brands to be in a much better place by Memorial Day and, ultimately, for Europe. The seltzer and innovation supplier, frankly, wasn't affected by the cybersecurity incident at all. Can suppliers return back to normal, [indiscernible] (00:35:59) at full capacity.

So I guess to try and get a little bit closer to your question, obviously, with us really only focusing on the core brands that will imply that the slower moving and some of the de-prioritized brands will only really be picked up in the second half of the year from a volume perspective.

From a marketing spend perspective, we've got a lot of momentum behind some really exciting innovations which have landed well and we'll be fueling those. And Coors Light's and Miller Lite's performance, as I said in my opening remarks, is strong. The campaigns are working. And we'll be putting the necessary firepower behind those two brands. Did you want to add anything, Trace?

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

A

No, I think you covered it. That was good.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Chris.

Christopher Carey
Analyst, Wells Fargo Securities LLC

Q

Thanks for the perspective. Thank you.

Operator: The next question is from Steve Powers with Deutsche Bank. Please go ahead.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Thank you. And I guess can we maybe hone in on the impacts of the February storms and the cybersecurity event, in a bit more detail on just how you size those impacts in the first quarter?

In the final analysis, what amount of those impacts represent effectively lost sales versus volume you expect to recoup over the balance of the year, as you just described in response to Chris' question?

Just to understand that dynamic in a bit more detail would be great. And maybe as part of that, if you can just characterize how thin US channel inventories were exiting March relative to consumer demand run rates?

And just – what we're trying to – I'm really trying to figure out just what the catch-up is now that I presume you're shipping to full capacity, as we sit here end of April. Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Steve. Let me see. So towards the end of March, we did file an 8-K, which laid out what we thought was going to be the impacts of the cybersecurity attack. If memory serves me correctly, we said 1.8 to 2 million hectoliters and a shift of EBITDA of about $120 million to $140 million.

Now, I would tell you that the recovery plan our supply chain teams just did a tremendous job in those in sort of back end of March. So I would say, by the end of March, we were a couple of hundred thousand barrels ahead of where we were expecting to be.

So I think you can assume that the impact was a little bit less than what we've said in our 8-K. And as we sit here today, I think it's the 29th of April. We've continued to meet the recovery plan and, in fact, exceeded a little bit. So I think our breweries are well on track with that recovery plan.

We have seen sequential improvement in our core brands inventory. But we're not where we want to be just yet. We expect to be much closer to where we want to be with those brands by Memorial Day, and then fully recovered on the core brands towards – in the sort of back end of the second quarter. And then, we can focus in on those brands that we have paused beyond that. I think that's about as far as I'm going to go on the impact, Steve.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Fair enough. Was there – maybe just on the February storms, was there a material net impact there? Or was that more of delay intra-quarter and the real kind of carryover effect of the cybersecurity event?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Texas hurts because the Texas brewery was closed for almost 11 days. The government shut the power down on us. And it obviously has knock-on impacts because there are some of our input material suppliers in Texas as well. So it did have an impact further up the Eastern Seaboard as well. So I would say, certainly, it did impact and was part of the 1.8 million to 2 million hectoliters, which we announced. The lion's share was obviously the cybersecurity incident, but the Fort Worth shutdown was not immaterial.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Understood. Thank you very much.

Operator: The next question comes from Kevin Grundy with Jefferies. Please go ahead.

Kevin Grundy
Analyst, Jefferies LLC

Q

Great. Thanks. Hello, everyone. Gavin, a few related questions, if I could, on the market share progress that you called out on Coors Light. And of course, this has been a priority for the company. So three related questions, if I could. One, if you could just spend a moment talking about the strategic shifts around marketing and positioning of the brand given some of the pressures on the light beer segment?

Two, what your growth expectations are for light beer broadly sort of coming out of the pandemic here?

And then, lastly, just how you think about maximizing incrementality to the overall portfolio as you lean in on a multi-brand seltzer strategy, given that light beers have been a source of demand for seltzer? So your comments there would be helpful. Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Kevin. Okay. A lot going on there. Let me try and knock them off. So I'll start with your final point, right, which is actually more than half of the seltzer growth is actually coming from outside of the beer category. We've tested that number multiple times over the last year, and it's pretty consistent. So obviously, premium lights are losing [indiscernible] (00:41:38) to sales, but it certainly is coming from other places, including craft and ironically economy, less so actually premium lights, which may surprise you, but it's what the data says.

We have seen continued positive trends for Coors Light and Miller Lite over the past quarter, and that's trailing off the strong performance which we had in 2020. And the focus that we're placing on the health of our core brands is paying off, and specifically our ambitions to connect with new drinkers and giving them a real reason to reach for Miller Lite and Coors Light and just kind of break through that big beer advertising plateau with fresh creative approaches, and we're seeing the benefits of it.

For example, in Coors Light, we're up significantly in key brand health metrics like consideration and like household penetration, positive impressions amongst 21 to 34-year-olds, which is a key target market for us. And so far in 2021, Miller Lite see an increase in both consideration and positive impression.

I can go on in quite some more detail on how the Coors Light campaign has turned a corner since the 2019 launch of [indiscernible] (00:43:05) brands growing segment share in premium lights. Every quarter since we had that launch, we've cut our share loss in the total category by more than 70%, I think it was. Coors Light is continuing to establish itself as the brand consumers buy when they're ready to chill.

So the campaign for Coors Light is resonating strongly with our core market, but also our growth targets, for example, the Latino drinker. So our revitalization strategy required us to invest behind our core brands, and we're doing exactly that. And we are seeing the benefits of it.

From a share point of view, I think I gave you some of the stats in our opening remarks. I don't know if I mentioned that above premium is also gaining industry share. Blue Moon LightSky is doing particularly well. And I haven't talked much about Vizzy, but we think we've got a real winner with Vizzy. It's achieved almost a 3% share in 2020 with only one SKU, and that SKU moved faster in Q1 than all Bud Light sales and variety packs put together.

We're expanding our footprint with new packs. We've got a second variety pack, the lemonade pack, and we've got a third new variant launching in summer. Our variety pack number 2 is already turning faster than our variety pack number 1. And Vizzy Lemonade is the second fastest turning lemonade seltzer in the market. Vizzy actually had a record sales week last week. So you gave me a lot of questions. I've tried to give you lot of answers and give you a little bit of color. I hope that helps, Kevin.

Kevin Grundy
Analyst, Jefferies LLC

Q

No, Gavin. That's fantastic. So congrats on the quarter and good luck here.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Okay.

Kevin Grundy
Analyst, Jefferies LLC

Q

Thank you.

Operator: The next question is from Bryan Spillane from BoA. Please go ahead.

Bryan D. Spillane
Analyst, Bank of America-Merrill Lynch

Q

Hey, thanks operator. Good morning, everyone. Gavin, I had a question about on-premise in North America, and I guess more specifically the US. As on-premise reopens, how different do you think it might look going forward given seltzer is a much bigger portion of the category and growing today? Some accounts may be looking for ways to have reduced touches kind of – on a sanitizing type thought or just thinking about sanitation.

So I guess I'm just trying to think that could on-premise potentially look different in the future than it did pre-COVID? And if so, does that create any opportunities for Molson Coors to gain some share in on-premise?

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Yes. I think the answer to both of your questions, Bryan, is yes. During the pandemic, we certainly saw an increased demand for large trusted brands and that's particularly true in the on-premise as your question is directed at. We also saw it in the off-premise, but it's particularly true in the on-premise, where on-premise owners are sticking to fewer, faster-moving brands. And that obviously benefits brands like Miller Lite and Coors Light. It also helps us, from a Blue Moon point of view as well. I mean Blue Moon is the largest craft brand, as you know, and that's disproportionately focused on the on-premise.

So the reopening of the on-premise and the move to large trusted brands is helping us, particularly with Miller Lite, Coors Light and Blue Moon. And we've seen a tick up a couple of points in our share in the on-premise as the on-premises has reopened.

You referenced seltzers on-premise. And certainly, in packaged form, I think that, that is absolutely right. I mean, we're in – we've actually had triple-digit growth in our placements this year and our retailers are reaching out to us asking for Topo Chico as quickly as possible given its spectacular launch and the demand that's been created by that.

Distribution of seltzers and velocity for us in the on-premise is actually increasing, and it's going to give us a real opportunity to do large-scale sampling opportunities, particularly through our alliances, because we know we've got great tasting products when we get consumers to try them, they're sold. And that also applies to innovation like Blue Moon LightSky. We're launching two draft seltzers on a regional basis through our craft companies, and we'll see how that plays out. But certainly, we're seeing big uptick in demand for our seltzer packaged brands in the on-premise. I hope I got all of that, Bryan.

Bryan D. Spillane
Analyst, Bank of America-Merrill Lynch

Q

Yeah. No, that's great. It's helpful perspective. Thanks, Gavin.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks.

Operator: The next question is from Rob Ottenstein with Evercore. Please go ahead.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. First, just a quick follow-up and then the main question. So just wondering kind of where you are in terms of the current run rate in the US on STRs. They're kind of running down low-double-digit in the scanner data, but obviously, the on-premise is offsetting that. So just trying to get a sense of where the business actually is. That would be helpful.

And then my main question really is on the hard seltzers, Gavin. It sounds like you're doing better than expected with Topo Chico, better than expected with Vizzy. Do you have maybe increased confidence that you'll get to that double-digit share of the category by the end of the year? And then you also referenced some work that you're doing on the international side with hard seltzers. I mean, how do you see those European markets developing for hard seltzers? Do you think there's a chance it can be as big as it is in the US? Or is it very different given the different consumer? Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Rob. Okay. Let me take the first question first. Look, as you know, we don't normally give these updates anymore. But I think given the cybersecurity incident, I'll make an exception and give you some flavor for how April is going. You referenced scanner data. I mean, obviously, that needs context, right? I mean before data, scanner data is including that massive loading that we had in the off-premise from March of last year. And so, it doesn't take into account any shift into the on-premise.

Over the last four weeks, our sales to retailers in the United States are up mid-single-digits, Rob, so quite different to what you're seeing in the scanner data. We're shipping over 1 million barrels a week in the USA, as I said in my prepared remarks, and the UK volume's up double-digits despite only, as I said, 30% to 40% of on-premise being open and only for outdoor dining.

Your second question around seltzers. Heading towards our goal of double-digits or 10% by the end of the year, I mean you're right. I mean we had a spectacular launch of Topo Chico in the very limited markets in which it's in. It's only in 16 markets. So I think we've got a clear winner here, and we'll continue to feel the potential of this brand. And based on the reaction in those 16 markets, I think it's got strong national potential, and we'll look to roll that out to future markets when we're confident that we can meet the unexpectedly very high demand that we had in its rollout markets. And you're right on Vizzy. I think we believe we have a real winner with Vizzy. I won't repeat the stats I just gave, I think it was to Bryan or Kevin, but I think particularly exciting for us is the fact that Vizzy Lemonade is the second fastest turning lemonade seltzer.

And as I said, we had a record sales week for Vizzy last year. We're pleased with the performance. We had a singular SKU last year. We only launched in April, and we had inventory challenges. While we're meeting all the demand for Vizzy, now that we've got the capacity up and running in our Fort Worth Brewery. So that means that we're more confident to get to our 10% target. We certainly think we've got the brands in the seltzer space to do that and now we need to execute.

I think the early data in the European market suggests that seltzer is going to be good. I'm not sure yet that I'm ready to tell you that it's going to be as good as it is in the United States. We don't have any data to support that. But certainly, Three Fold has landed well in the United Kingdom. Wai is already in a couple of markets in Central and Eastern Europe, and we'll be rolling it out more fully towards in this month. So I hope that helps, Rob.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you, Gavin.

Operator: The next question is from Bonnie Herzog with Goldman Sachs. Please go ahead.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Hello, everyone. I just wanted to quickly circle back to the cost pressures you're facing this year. I know you guys touched on this, but maybe you can just give us a little more color on how you expect this will evolve through the balance of the year. And really, what are some of the key levers that you have to mitigate some of these pressures? And maybe touch on a little bit further on any kind of hedging you have in place? And then I'd love to hear how you're thinking about pricing as a potential lever to offset some of these cost pressures. Thanks.

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.

A

Yeah, Bonnie. So I'll take the cost question. So our underlying COGS in the quarter increased 5.6%, and 470 basis points of that was inflation, was just under half of that related to the transportation. So as I think everyone knows, the freight market is really tight.

We spoke about this in Q4, and we said we expect it to continue to be passing in Q1. It did start showing improvements in January and the beginning of February, but then that changed with all the winter storms and that caused major disruptions to the entire transportation network. So we expect to continue to see that tightening in the freight market. And then as it relates to us, sourcing cans from four continents, that also actually added to that inflation.

In terms of levers to mitigate that, I did mention our cost savings program. So we delivered $270 million of the $600 million in 2020. We expect to deliver the balance of that in 2021 and 2022 roughly in equal portions. And we're doing – so far, we're tracking well to achieve those savings. And the majority of those cost savings are focused on COGS.

So in addition to the cost savings program, as you mentioned, we have really robust hedging programs. We hedge all our commodities. We can – I don't want to get into the detail of how we hedge, but our hedging programs are robust, and that will help to mitigate some of the inflationary pressure that we are seeing.

Gavin D. K. Hattersley

President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Trace. On the revenue side, Bonnie, look, in terms of pricing, we don't give forward pricing guidance. Rather than using pricing to offset prior COGS, we've got hedging programs in place, which Tracey mentioned, and we have the cost savings programs in place as well. And I don't know, Trace, did you mention the fact that our guidance does actually include any cost pressures, which we may have. We've factored that into the guidance, which Tracey gave earlier on. Thanks, Bonnie.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Helpful.

Operator: The next question is from Sean King with UBS. Please go ahead.

Sean R. King

Analyst, UBS Securities LLC

Q

Great. Thanks for the question. Yeah, a broader question about distributor receptivity to some of the beyond beer moves that you're making, like how has that impacted your relationships with distributors? And then a second question on top of that would just be any update you can provide on progress with the Yuengling JV.

Gavin D. K. Hattersley

President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Sean. Yeah, look, my excitement on ZOA got ahead of me when I was answering a Topo Chico question earlier on. ZOA has been extraordinarily well-received by retailers and by distributors alike. And we've got a very strong partner in Dwayne Johnson. He's not just a celebrity partnership. He's actually an owner of the business together with us. And frankly, every time he puts something out on Instagram, he reaches 231 million followers in a nanosecond.

The true test of how innovation lands is what are the distributors order. I mean we just had our order window for the very first order closed. I think it was either last night or the night before. And the orders are strong, and that tells you how the distributors feel about it. The retailers are particularly excited about it as well. So we're just getting into the market with it now. So I don't want to get ahead of myself, but where it has been in the market with some of the vitamin store, it's been – the results are tremendous. So short story, very excited about ZOA from a retailer and a supplier and consumer point of view.

La Colombe, we've already hit our distribution targets. We had distribution targets with our partner, La Colombe that was set for the full year. And we're in April, and we've hit them. So that is an illustration of how distributors have executed in C-stores and the drug chain, so short answer is very good, Sean.

From a Yuengling point of view, tremendous amount of work has gone into getting that launch in the fall of this year in Texas. They've made tremendous progress, the joint venture hiring, folk setting up the distributor relationships, awarding the brand to the various distributors in Texas and gaining commitments, talking to the chain. So I would say we're exactly where we thought we'd be with the Yuengling joint venture.

Sean R. King

Analyst, UBS Securities LLC

Q

Okay. Thank you very much. All the best.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Thanks, Sean.

Operator: The next question is from Kaumil Gajrawala with Credit Suisse. Please go ahead.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi everybody. Thanks for taking the question. A question on seltzers and guidance perhaps together and then seltzers and profitability. In your guide for mid-single digits for the full year, what are you incorporating for the contribution for seltzer? I've heard a lot of positive comments, but how big do you expect it to be? Is it big enough? Is it a point of the five points? Is it three? If you could maybe just give some context on how you're thinking about it there?

And then how should we think about profits and the impact on profits for many of these products as you mentioned? ZOA, obviously, there's more than one owner there with Topo Chico. You're [indiscernible] (00:59:36) with Coke and rolling it out. Can you just maybe give us a context on maybe if the revenue contribution looks different from the profit contribution? Thank you.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

A

Well, look, Kaumil, I'm not going to break down the, sort of brand contribution to our NSR. I'll give you two points, though. One is that our seltzers and almost all of our innovation operates in the above premium space. And some in the super premium space and some of our innovation actually operates even above the super premium space. There is a lot profit to go around for both ourselves, for our suppliers, for distributors and for retailers. These are all above premium brands and they're all going to contribute to the bottom-line overtime.

So as far as contribution to NSR is concerned, I mean, essentially, we had one brand in the market for eight months of the year last year with Vizzy. And, I think, we exited the year close to a full share of seltzers. We're closer to 7 share now than we were at a 4 share. We've got the plans. We've got the marketing muscle to put behind our seltzers for the balance of the year. I'm not going to be repetitive and bore you on all the excitement around Vizzy and both Topo Chico. Proof Point's just launched into the market. So these brands are coming off a fairly low base from a contribution point of view in 2020 to our business. And so we would expect them to be a much more meaningful contribution to our business in 2021. I hope that's helpful, Kaumil.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Thank you.

Operator: The next question is from Lauren Lieberman with Barclays. Please go ahead.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Hi. Sorry, I'll keep it tight. My question was just on cybersecurity and just thinking about go-forward costs, investments you might need to make to kind of shore up your systems. I know the company has been through several years of very, very tight times. And so just thinking about the degree to which maybe there's been some underinvestment and there's a need to, kind of, catch up and the degree to which that's, kind of, already factored into this year or next year's thought process on spend? Thanks.

Tracey I. Joubert
Chief Financial Officer, Molson Coors Beverage Co.
A

Yeah. So just in terms of – let me start with the cyber incident. In Q1, as we said in our earnings release, we did incur a net expense of $2 million as it related to various consultants and experts that helped us and are helping us with investigation. Actually, I don't want to talk too much about it, because it still is an open investigation around the incident.

But just in terms of investments, we have seen a significant amount of CapEx upgrading our systems in North America. We've spoken about US for a number of years, our [ph] BPMS (01:02:48) systems. And at this stage, we are also upgrading our systems for Canada, where we're actually taking the Canadian systems and putting it on to our US systems. So more than that, Lauren, I really don't want to give, because it is an open investigation.

Just in terms of our Q2, though, as it relates specifically to the incidents, we do anticipate some further minimal, really immaterial costs as we sort of put this to bed.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Okay. That's great. Thanks so much.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.
A

Thanks, Lauren.

Operator: This concludes our question-and-answer session. I'd like to turn the conference back over to Gavin Hattersley for any closing remarks.

Gavin D. K. Hattersley
President, Chief Executive Officer & Director, Molson Coors Beverage Co.

Thanks Debbie and thanks everybody for participating in our call. Look, there may be additional technical questions which you have, and please feel free to follow up with our Investor Relations team. And we look forward to talking with many of you as the year progresses. So with that, thanks everybody for participating in today's call and have a great day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.