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Molson Coors Beverage Co. (TAP)

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Trevor Stirling
Analyst, Bernstein Autonomous LLP

MANAGEMENT DISCUSSION SECTION

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Hello. Gavin, for a moment, I thought we'd gone into your revisions instead of the Bernstein Conference.

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

Did sound a bit like that, didn't it?

Trevor Stirling
Analyst, Bernstein Autonomous LLP

It did. Well good afternoon. Good evening. Wherever you are in the world welcome to the Molson Coors fireside chats with me delighted to have Gavin Hattersley. So we may not know this but Gavin and I have known each other for I think close to 14 years something give or take when Gavin was actually CFO of Miller Brewing and I was a rookie analyst covering SAB Miller. And I just told Gavin as well was ironically many, many moons ago I spent a few years at McKinsey and did some work for the old Bass Brewers which is now Molson Coors UK. So even though we've just recently extended coverage across the Atlantic, it's lovely that there's some links that go back long, long way. So welcome Gavin.

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

Thanks Trevor. It's good to reconnect and good to be with you.

QUESTION AND ANSWER SECTION

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Great. Thank you very much. So Gavin let's leap into questions and answers. Let me also remind the audience that you can do my crib sheet here. You can submit questions through the live Q&A tab. That is the right of your viewing screen or you can email them to us and that'll leave plenty of time at the end to pick up those questions; so through the live Q&A tab. I'll try and collate them. Those of you remember back in the day physically we used to have the cards. So I'll be doing the virtual equivalent of collating the question cards; so Gavin, around two years now – less than two years as CEO, how do you think the business has changed? Clearly COVID's had an awful lot and you've had change forced on you. If you look at the business what's changed you?

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

A

Yeah. Thanks Trevor. Yeah it's 18 months; little over 18 months since I got the seat. Look the biggest change has been the revitalization plan that our leadership team implemented in October of 2019. And the biggest visible change is how we're structuring the organization and I'm really glad we did that before the pandemic. I can't imagine trying to restructure an organization in the middle of a pandemic, but we've slimmed down our organization. We've removed a couple of corporate centers. We've taken out about close – I mean close to a thousand changes from a people point of view. We've eliminated a lot of duplication. And I think the biggest change, Trevor, is that we're a lot quicker in decision making. We're a lot less bureaucratic. Let me give you an example; Coors Light. In the sort of pre-revitalization plan days, you had to sort of circle the wagons around a Coors Light person in Canada, one in the UK, one in Panama, one in the US and then somebody in the corporate center. And you could imagine trying to get all of those viewpoints aligned and how that slowed you down. And certainly from as it is now, is one person between me and making a final decision on Coors Light and so if you talk to for example Simon in the UK we're getting things done at significantly quicker than we ever did. And so I think that's the biggest visible change internally to the organization as well. And then obviously there's our reinvestment of all those funds behind our brands, which was not a little bit off center last year because of the coronavirus, but really nicely on track this year.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Yes. I guess, you've partly answered this, Gavin. You were running the biggest bet if you like MillerCoors for quite a – for a few years and then got the top seat. What has that enabled you to change around the US organization, around the [indiscernible] (00:03:59).

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

A

I mean simply put Trevor, I mean it's – that mean implement the revitalization plan because you said it, right, I wasn't in the top seat. So the final decision maker was not me. And even if I had ideas about how things were going to be done, I wasn't the final decision maker and not I am. I mean that's obviously got its upsides and its downsides but it's allowed me to implement the revitalization plan. I mean...

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Right.

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

...as a business Trevor we were very good I think at meeting our commitments on cost savings and by and large on the bottom line. But we have been singularly unsuccessful at driving the top line and that needed reinvestment. It needed, I think, a structural change which I put in place. And it needed a reset of expectations of how much we wanted to invest behind our brands which was supposed to be last year and somewhat delayed into this year. And so being the final decision maker has allowed me to implement that frankly.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay. All right. Gavin, clearly the revitalization plan is core, I think you mentioned in the past there's five pillars to that. Maybe for those people who are new to Molson Coors you can just sort of outlay what those five pillars are?

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

Right. Sure. So on the cost side where pillar five as I would call it was restructuring the business into two clear business units; Europe and looking after the rest of the world from a license and export point of view, and then the Americas, the US business, Canada business and South America. Our plan was to take out $150 million. So we added that onto the $450 million which we'd have previously announced for a total program of $600 million. And the objective is to invest $150 million that we generated by this restructuring and slimming down into the other four pillars. Pillar four which we don't talk a lot about is capability building and that was capability building around the e-commerce space, digital, capital investment behind some of our innovations was sort of pillar four. And then the first three pillars, first and foremost was our core brands making sure that they're as healthiest as they could be, allocating a little bit of extra money for them so the core brands being Miller Lite and Coors Light, Carling in the UK, and Molson Canadian and Coors Light up in Canada, and then the above premium space which was the Peronis, the Pilsner Urquells in the United States. The number of above premium brands in the UK, Blue Moon, Blue Moon LightSky in the US and then there's the sort of beyond beer emerging growth space. So beyond beer being seltzers; I'm investing heavily behind that.

And then moving into new spaces that we'd never been in before as a company, which necessitated the change from Molson Coors Beer company to Molson Coors Beverage company; and we did that for a couple of reasons. But the most important reason was this, particularly the 21 year to 27 year olds moving into the better-for-you in many instances avoiding alcohol completely and we wanted to make sure that we had relevant brands to capture the share of threat from that generation. And we didn't get left behind. So that was the core of our revitalization plan, Trevor. And obviously the coronavirus didn't make it easy. We had to make some step choices to not do. The biggest victim of the pandemic would probably be Saint Archer Gold. We had to make a choice between that and Blue Moon LightSky, and we chose Blue Moon LightSky. We didn't feel we could do both from a capability point of view in the middle of the pandemic. And brand like Peroni. I think Peroni is a great brand. I'm very happy we've got it in the United States. We don't have it in the rest of the world obviously, but we have it in the United States. And I think that have said quite often that that could be the – that could be the next big European beer import into United States after Heineken and Stella. We obviously put that on hold because it's such an on-premise focused brand, and there was no on-premise for large parts of last year. So it summarizes it in total.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay. I'd love to chase the Peroni question. Maybe we'll come back to that one later. I appreciate – I understand it's very hard to put milestones here about revitalization plan, but can you give us some sense of what degree of turnaround you can expect? I was thinking about a 1 percentage point improvement in the rates decline per annum or 2 percentage points or 50 bps or range. Is there anything you can do to help frame for investors?

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

A

Yeah. There's a couple of things I can help you with. So that sort of third pillar which is the emerging growth driving that towards a $1 billion business that requires us to grow that business by 50% over the next three years. Coming into 2020, we had less than 1% share of the seltzers space and we've got this goal to be at 10% share by the end of this year. That's obviously not the end of our ambitions in seltzer. We're not going to get to 10% share at the end of 2021 and say job done. Now we can sit back. We obviously have bigger aspirations in the in the seltzer space beyond that. The 10% share is just this year. The revitalization plan is also about driving sustainable top line and bottom line growth Trevor. As I said we've done I think a reasonably good job at the one element of that and not such a great job on the top line side of it. And so getting both of those growing in a sustainable way is another checkpoint for us and obviously 2020 was the reset year and 2021 was supposed to be the doing both year and obviously pandemic's pushed everything out to a year but over the – we want to be a top line and bottom line growth story in the years ahead for sure.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Right to interpret that Gavin saying that clearly in the early years you've taken all the savings; you're putting it into capabilities marketing et cetera but in the outer years, you think that you could get to, if we might call, organic margin expansion rather than margin expansion through cost cutting?

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

A

That is the ambition yes – and you know Trevor you can start to see that a little bit in the last sort of three quarters where, as we've shifted the portfolio in the US and we're – still it's very early days into a more above premium space. So you see the brand mix come through quite strongly in a positive way. And obviously as we shift the mix particularly in the US into that above premium space, we should see the benefit of that coming through in the quarters ahead. We came into the revitalization plan with the US being – certainly less than 10% of our portfolio was above premium. Canada was about twice that and Europe was about three times that. And obviously our ambition is to get the US' share much closer to Canada and Europe than it is now and that will certainly have a positive margin impact over time.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Well I guess related to this, I guess in the 10 days since we've been officially covering it, one of the questions has come up was well what about all these new products? You've got lots of joint venture partners in there. Are they margin dilutive?

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

A

They're all different, Trevor. So we haven't disclosed the terms of every single deal but they all have one thing in common and they all operate in the above premium space. Some of them operate in the super above premium space and some of the NSRs and gross margins are in the super-duper premium space like cannabis for example and CBD; the sort of NSR and margins of well north of what our average is. And because of that, they all have a – there's plenty of profit to go around right. So there's plenty of profit. Topo Chico's one that is raised often, right. So there's plenty of profit to go around between ourselves the retailers, the distributors and Coca-Cola for us to be happy with the arrangement and we'll be even more happy when we bring Topo Chico in-house because that'll further enhance the margins particularly on our side.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Now, really hard question, tough; what's plan B if revitalization doesn't work?

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

A

Well, we don't plan to fail in this one Trevor, but I'm also not naïve, right. Not everything we're going to try is going to work. And you know we've already experienced that with Saint Archer Gold. That was circumstantial. I still happen to believe it was a great brand, a great liquid and it would have been a really good brand to launch, but we've had to hibernate that. So I'm under no illusions that not everything's going to work. If everything works, we're not trying hard enough. I do think though that the foundation we laid in 2020 was surprisingly good given the circumstances in which we faced. We got a lot done that we – in fact we've got more done notwithstanding the pandemic than was our ambition for year one of the revitalization plan.

And now as the market opens up, I'm pretty excited about the foundation that we've laid. We have a pipeline though, Trevor. We haven't shot all our arrows out of the bow. Notwithstanding some of the criticism I've heard, we've actually been very choiceful about what we've done. And there're some things that we've chosen not to do in favor of other things. If those other things don't work, we do have plan Bs from a pipeline point of view up our sleeve. Based on what I know now, I'm pretty excited about some of the things we've got going on. I think Topo Chico is going to be a clear winner. I think ZOA has got huge potential in a $16 billion energy drink market. So I'm certainly not planning to fail but we do have a pipeline of some if the things we're doing don't work.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Well, yeah we'll come out and talk more detail about the individual elements of the plan. Maybe just turning a little bit more to the short term as the British Queen talked about her annus horribilis you've had a tough time and not just COVID with a cyber-attack and the outages in Texas, the IT problems earlier. Is this it? Have we touched bottom?

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

A

I sure have said Trevor. I mean, look this was not the year I was expecting. You missed the shooting which happened...

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Of course, in Milwaukee, yeah.

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

A

...just as we were getting going. That was a terrible time in our life and my life. And then we had all the social unrest that came with George Floyd's murder and everything that that required us to do inside our business from a listening point of view and helping our employees deal with a very traumatic situation. And then of course we had the Fort Worth storms which impacted more than just Fort Worth because a lot of our suppliers are based in Texas. So it didn't only impact our Forth Worth brewery, it had impacts all of over East Coast and frankly even down into Mexico where a large part of the grid in northern Mexico actually comes from Texas. And put on top of that the coronavirus and the cyber security attack; I think the Queen's annus horribilis has got nothing on mine.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Right. Well, there are a few green shoots, Gavin. We were talking about it earlier on today. Is it realistic to think we can get back to 2019 that the on trade will recover that we will look back on 2020 and early 2021 as a bit of an aberration.

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

A

I do think we can get back to 2019 on premise levels. I think it'll take time. If you'd asked me that question six to nine months ago, our sort of prevailing wisdom based on what we knew at that time was we thought about 15% to 20% of the outlets wouldn't return; certainly based on what we know now. I think that number has narrowed a bit. I would say our current view is around 5% to 10%, won't come back in the short to medium term. I think in the longer term, we'll get back to a sense of normalcy. I mean you're based in the UK. You can see the demand that's there from consumers to get out. And we don't see it having a huge impact on volumes once everybody is up and running and open to full capacity. I mean if there's five pubs in the village and four of them reopen, you'll just distribute the consumers between four instead of five. So I do see a recovery back to 2019 levels, obviously not this year from an on-premise point of view but other time for sure.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

But if you look [indiscernible] (00:17:14) US is amazingly diverse country. When we look at open table data, it looks like Florida and Texas are already tracking ahead of 2019. Is that what you're seeing from those states as well?

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

A

Yes. Florida and Texas would be the best performing at the moment. And then of course it's very different depending on where you are. You know California is real a laggard as far as that's concerned; big states like Wisconsin are playing catch up to Texas and Florida but you certainly have chosen the two that have got back to normal a lot quicker than others. I mean we're ahead of where we were expecting to be right now from an on-premise point of view, Trevor. I mean where we are right now from the number of outlets opening, we were really only expecting to hit that by the end of summer. So we're a couple of months ahead of that expectation. Certainly, we didn't expect sports stadiums and events to be back at the level which they are. I mean many teams; stadiums are now back to 100% capacity which we frankly weren't expecting until later on in the summer.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Well, maybe just talk a little bit on the US and the UK. What about the rest of Europe? And what's the progress like in the rest of Europe?

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

A

Yeah. So given the huge role the on-premise plays in the UK which is about 75% of our top line in the UK's on-premise, that number is less in Central and Eastern Europe. It's closer to 50%. So they weren't as affected as the UK was. They didn't have the mass shutdowns to the degree which the UK did, but on the negative side they kind of missed summer last year, Trevor. And I mean countries like Croatia and the Czech Republic rely quite heavily on tourism. So we – but they had a rough time of it last year. Our expectation is it's going to be not back to normal, normal in 2021 but certainly we see the potential for the tourism and summer to be more normal this year than it was in 2020 and that's obviously going to be beneficial for us; the important three or four months for the Central and Eastern Europe business more so than the UK business.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Well, let's pick up a little bit in the revitalization plan. Gavin maybe you go through some of the elements of it. Clearly, the core of the business is still the premium Lights. It's a subcategory if you like that's been on decline for quite a long time. You've been gaining share inside that industry, but is that enough?

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

A

Well, we haven't and we obviously would like to go and share the total beer segment, beer category right. In Europe, we've done a really nice job of gaining share in the sort of sub segment, but we won't be satisfied until we're gaining overall share. And Miller Lite did that a couple of times last year purely of the Nielsen reads. And that's notwithstanding the huge growth of seltzer; Miller Lite grew total share of total category several times. Obviously, we're not going to be satisfied until Miller Lite and Coors Light are doing it. I think I mean as you note, I've been around here for a while and certainly the Miller Lite and Coors Light's bring health a positioning how they're coming to life in the market is as good as it's ever been. It's consistent. And if you look at a performance in the pandemic, they both rely on on-premise and the huge surge in seltzers; we're pretty pleased with where we are right now. And as the on-premise opens up, we think that gives us a really big opportunity with Miller Lite and Coors Light because at the beginning of the pandemic, consumers did tend to migrate back to big trusted brands. And that goes straight into the strength of Miller Lite and Coors Light. And those outlets that are opening right now, we are seeing some of that manifest itself. We're gaining a ticket to share with Miller Lite's and Coors Light's. So I guess my short answer to your question is we won't be satisfied until we're growing total segment share with those two brands.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Well you know I guess for me when I look at your portfolio compared to your larger competitor, the big missing for the last four, five years has been in super premium and Michelob Ultra. Clearly I understand that Blue Moon and some people look at it as a craft, others look at it super premium domestic, but Blue Moon LightSky seems to have real traction over the last couple of years. What's driven that?

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

A

Well, we're excited about that Trevor. We launched that brand right at the beginning of the pandemic. So it had every reason to fail and it hasn't. So it's done extremely well for us notwithstanding the three things that had going against it. It was a new brand in the middle of a pandemic. And we've struggled for sleek cans to meet all the demand that came with it. So it's very quickly growing into a meaningfully sized business with millions of cases.

Obviously, it's all small compared with Blue Moon Belgian White, but it's a lighter, more sessionable flavorful alternative to the Blue Moon drink here. We haven't seen a lot of cannibalization. Obviously that was an unknown for us and we [indiscernible] (00:22:51). So we expected cannibalization. That hasn't been as much as we were expecting. So certainly it has the ability to perform against a brand like ULTRA. I would say to you though that Miller Lite a lot of our – not a lot; portion of our commercials are focused on Mic ULTRA and the one calorie difference between ourselves and Mic ULTRA and in fact the brand that Mic ULTRA losses. When Mic ULTRA loses volume within the category, the brand is losing the most to is actually Miller Lite. So Miller Lite is gaining drinkers from Mic ULTRA. So we've got several prongs that we're focusing in on Mic ULTRA for sure.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay. Let's turn to – another big halt area is another big hot area is seltzers. Before I ask a detailed question, what's your strategy in seltzers?

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

Well as I say, we weren't late to the game with seltzers. We just came to the seltzer party with the wrong brand, the wrong package and the wrong liquid. Other than that, it was great and we obviously learned from that. And one thing that became very clear to us because the big successes in seltzer are White Claw and Truly, and by and large, they're in the same distribution network as we are. And so what we had to avoid was becoming me too lookalike White Claw and Truly. It had to be very differentiated. And so that's what Michelle, our new Chief Marketing Officer – she's not new anymore. She's been around couple of years. It was very important to us that we came up with brands that were differentiated. And if you look at our portfolio at the moment, Vizzy is very differentiated from an ingredients point of view. Topo Chico is differentiated because it's the only brand that's been around for more than 100 years. It's got Mexican heritage and it's got a huge following in the United States on the non-alcohol side.

Coors Seltzer has the Rocky Mountain sort of water refreshments, which we felt fit perfectly with them with seltzers and Proof Point is something we've just never tried before, right, which is the spirits-focused seltzer. So, that's what we wanted to bring is differentiation. I think we've got two very clear winners, and we've got more work to do with one. And the fourth Proof Point, it's just we've – it's only been in the market a few weeks. So, it's way too soon to judge on that one.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay.

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

We're also, Trevor, expanding seltzers beyond just the United States. I mean Canada has launched Vizzy and Coors Hard Seltzer, both of them doing really, really well, which has necessitated us announcing an expansion of capacity by 300% in Canada for seltzers. We've launched Three Fold in the United Kingdom and we've just launched Wai in Central and Eastern Europe. So, our seltzer plays much more than just a US thing.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

A US thing. Tell me a little bit about Vizzy, Gavin, [indiscernible] (00:25:53) when you said that you got 3% share with one SKU, I was going, really that says something about the looking at market shares just too narrowly.

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

Yeah, we're pretty – we're excited about Vizzy, Trevor, I mean we launched it, I think it was early second quarter of last year. So, we didn't even have it for a full year. And we launched with essentially one 12-pack variety pack. This year, we've launched a second variety pack and we've launched Vizzy Lemonade, Hard Lemonade. It's the second fastest turning lemonade after Truly. So, we're excited about the potential for that.

If – for those folks that are listening that frequent stores in the US, you would – you will see that Vizzy jumps out and really hits you in the face with its orange packaging, and right now because of the additional SKUs which we've launched, extensions, it's starting to get a much bigger billboard effect in retail. And so, it's differentiated. We've got more than enough cans. We're meeting all the orders and I'm certainly excited about that one.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay. Topo Chico, clearly really hot start. It's clearly resonating incredibly strongly in the Southern US states, and particularly in the heartland of Texas. Any reads, though, from beyond the heartland. Does it resonate with somebody who has never heard of Topo Chico mineral water?

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

Yes, it does. And you'll be surprised how many people actually have heard of Topo Chico mineral water. We've launched in 16 markets, so 9 states and 7 big urban markets. So, Topo Chico, you can find in Chicago, for example, you – [ph] but you can't find it (00:27:36) in the whole of Illinois, it's launched in some parts of the Northeast regions, but from a total state point of view, it's largely focused on Texas, Oklahoma, New Mexico, Southern California, Florida and other big states that we've launched in.

Trevor, the velocities are growing. They're growing strongly, the demand [ph] is up in (00:27:58) Chicago, right, it's not a southern state, not a lot of Topo Chico mineral water in Chicago. And it's doing very, very well. I don't have it, I don't want to guess, but I'd – this – the stats from the retail chains in Chicago are very strong. I can't remember exactly where on the ranking it is but it's high, and gained 20% share of seltzers in Texas in week one. We knew – we thought we had something here, but we're working very hard to meet the demand because it is high. It is strong.

We're working with our third-party contractors together with Coca-Cola to get as much Topo Chico out as we can. We've said that we're going to bring it in-house, which we'll certainly bring it into our control and we can control our own destiny. We do expect supply to increase over the months ahead. And the launch has been spectacular. I mean there are folks that have been around this beer business for 40 years, they said they've never seen anything like it before. As fast as we can put it in our distributors and they could put it into retail [ph] and so it's (00:29:10) going out. The constraint on Topo Chico right now is not an excitement at retail point of view, it's not a consumer excitement, it's the demand is so high, we're playing catch-up, but we're catching up.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

So, a longer-term question on seltzers, Gavin, a lot of people are putting in a lot of capacity to fill very ambitious plans on hard seltzer. And if seltzer doesn't – if it just slows a bit, there's going to end up being a lot of excess capacity around both in contract brewing and [ph] in, let's say, (00:29:50) manufacturers themselves, breweries themselves. Any indication that some of that could be disruptive for the industry that you may start see price competition coming in or God forbid people take that capacity and start to brew cheap light beer?

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

Well, there's not a lot of enthusiasm from a retailer or a distributor point of view for messing with the above-premium pricing and the margins that exist in seltzer. So, I do think that that's [ph] in a very common (00:30:20) sort of control point or a checkpoint.

From our perspective, the biggest cost for us in getting seltzer capability has been putting in slim cans lines into our – into the breweries where we've got seltzer capability, so Fort Worth and Milwaukee as prime examples. That's been the largest part of our capital expenditure.

We're balancing out our seltzer demand both with internal seltzer capability but also with the third-party contractor. So, we're doing both, contract brewing. I don't see a place where we will have too much capacity in-house. I mean actually what we're trying to do is bring Topo Chico in-house because as soon as we do them, the margins will go up a lot more and we will have control over our own destiny.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Yeah, we're just exploring further inside emerging growth, I think I can hear the enthusiasm in your voice about Topo Chico. What are the Yuengling JV? Where does that play in here?

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

Yeah, I've worked long and hard on that one. It's been a long time coming. I think that Yuengling is an exciting brand. It obviously primarily east of the Mississippi and developing it and giving an opportunity west of the Mississippi is a big deal. I mean it's – it certainly is a brand that plays quite nicely in the sort of space between Premium Lights and Craft. And it's a family that shares the same values as we do.

We've got on really, really well with them, with Dick and his daughters, not – I think it's going to be a – I think bringing Yuengling to drinkers that have never had it, well, they actually have had, there is a lot of excitement in Texas for example, a lot of Pennsylvania and Northeast transplants in Texas that they drank it when they're in college and they're very, very excited about getting it in Texas.

Yeah, the obvious question is, well, what's it going to do to your – I mean this is going to cannibalize our own products and of course some of it will, but we've obviously done a lot of work on that and a lot of disproportionate share of that does not come from our portfolio in markets, where they've been before. So, a lot of it comes from our biggest competitor. And obviously our expectation is that the same would happen in Texas.

Just remember, Trevor, there that we will – we don't obviously control the joint venture. It's a 50-50 joint venture. So, we'll be recognizing the sort of profit on the equity income side. And we wouldn't recognize the revenue from the joint venture. But certainly we will give the information in our disclosures that will be clear to people what's going on.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Yes, just going to say just from an accounting perspective because the benefit from the JV comes through some associates, it could actually be a hit to your reported top line growth.

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

And as much as there is cannibalization from our own products that would be true.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Yeah.

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

From an overall profit and margin point of view, it's beneficial. I mean we've – obviously we wouldn't have got into this if we didn't think it would be beneficial from an overall [audio gap] (00:33:47) point of view [indiscernible] (00:33:47).

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Yeah. Yeah. One for the [ph] accounting (00:33:52) just thinking back to how SAB used to account for MillerCoors. So, with the proportional EBITDA separate...

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

[indiscernible] (00:33:59) I remember that well.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Yeah, certainly true actually. Yeah, they're maybe talking about it, I think the upside from Topo Chico is...

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

Yes.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

...you can't guarantee it, but looks very strong; Yuengling, pretty much guaranteed. Things like ZOA, La Colombe, how should we think about those?

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

Yeah. You've chosen two very different brands there in our non-alc space. ZOA is really interesting. I mean it's a $16 billion space, the energy drink space. And I was asked earlier on, so why – how can you be successful when some other big players haven't been? And I think that the differentiating factor here is twofold. One is it's a better for you energy drink. It's that's how it's being position. And secondly, we don't have the typical celebrity partner in Dwayne Johnson that a lot of brands have done.

Dwayne is actually an owner of ZOA. We're also a part owner of the company. And The Rock has got incredible reach. I mean every time he puts something on his Instagram about ZOA, it's reaching 240 million people. We really only we're going to launch ZOA in June. But he was tweeting about it so much we had to bring it forward. And we've launched in GNC and Vitamin Shoppe and it's starting to hit other retail outlets. I don't have a favorite child at the moment, but that one's right up there with some of the other favorite children in Molson Coors. I think that this brand could be a big deal for us but it's very early days yet.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

But it's very early days. And La Colombe?

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

A

La Colombe is, I think, it's the fifth largest coffee company in the US. We've done such a good job for them. The deal started with just C stores and drug stores. And we had certain levels at which we had to hit before it opened up any other parts of our market. And we've done such a nice job or our team has done such a nice [indiscernible] (00:36:14). Our distributors have done such a nice job with hitting the distribution targets that will unlock the broader market sooner than we – much sooner than we had actually expected. So, again, from a consumption point of view, we'll have to see which one is bigger. And ZOA obviously plays in a huge market but so does La Colombe.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

I guess that leads on to sort of a question from your distributors' perspective, Gavin, given that they're already carrying other companies' brands, they've got quite complex portfolios. You're asking them to get into new areas. Clearly they probably know hard seltzers already, but energy drinks and coffee. These are very new to them. How do they feel about the added complexities of the turnaround [ph] time (00:37:04)?

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

A

Trevor, a lot is made of SKU complexity. But distributors have been dealing with us for years and years and years and years. I mean we've got a lot of SKUs. Distributors have got 10 times more SKUs than we do. They're used to dealing with complexity. We have a disproportionately higher share of volume than SKUs in every single one of our distributors. We punch well above our weight from a SKU point of view. They're actually ahead of us from a non-alc point of you. They've been representing brands like Red Bull and Bang and Monster at various stages. And so, they've got capability in this area. Now, obviously, there are distributors in our network that have never dealt with non-alc. And we're working closely with them, but there are many that have. And this is just another arrow in their bow. Distributors like momentum, I can tell you that. And they like excitement and ZOA and La Colombe bring both of those for them.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Maybe coming back to Europe, Gavin, so we talked a little bit about COVID and COVID impacts. But as you said before, your UK business is very heavily on-trade oriented. And what we're seeing in the UK for the last 30, 40 years is every year almost 1 percentage point of volume moves from on-trade to off-trade. Does that mean that your UK business is under constant pressure because of its on-trade orientation?

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

A

Well, I think that the opposite side of that particular debate is the above premium – the premiumization in the on-trade. So, that's been a – from a revenue – so, from a volume perspective, you're right. But from a revenue perspective, it's the opposite, right? It has been growing. And we've launched a few – quite new exciting brands in the above-premium space. Our latest is Madri, we've got Pravha from the Czech Republic. And both of those brands are showing really good early promise. We've got strong capability in the on-premise. It is our expectation that we will actually gain share and from a volume perspective and certainly from a revenue perspective. A lot of the growth that we've had on our European business has been in the above-premium space, Trevor.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Well, coming back to where we talked about Peroni, can you use the rights in the US but not in the rest of our world its an Asahi brand in the rest of the world. Do you think you'll basically replicate the footprint or the strategy that made it a big brand in the UK or do you need to do something differently in the US?

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

A

Well, I mean going back to what the SAB team did with Peroni in the UK, that was a huge success. And I've got SAB roots as you know, right?

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Yeah.

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

A

And certainly I've learned a lot from a lot of really great people in SAB [audio gap] (00:40:07-00:40:13). And so, don't be surprised that we're not replicating some of those successes in the US and Peroni...

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Yeah.

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

A

...would be one of them.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Nick Fell and [ph] Gary Hague (00:40:19) will be very happy.

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

A

Yeah. I'm sure he would be.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

But then you mentioned that you got PU in the US but you've got your own brand. Pravha, in Czech Republic that you're implementing in the UK. Why not go with one of your own Czech brands rather than PU?

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

A

Well, Staropramen is – we certainly have expanded that and continue to expand that outside of the Czech Republic. It's doing very nicely in the United Kingdom. And it's a strong export brand in the – outside of the Czech Republic. Yeah, look, I mean, at the moment, Pilsner Urquell is the brand we're focusing on in the US, that doesn't mean to say that Staropramen won't ever be. We did – it used to be imported into the US. We took it out of circulation in the US and sort of laid the groundwork for our ability to bring it back into our network at some point in the future if we chose to do that. But right now, Trevor, we've got enough work to do to grow Staropramen in the export markets in Central and Eastern Europe to keep us busy for a while.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. But moving way beyond beer into cannabis beverages, can you talk a little bit about what's your experience been in Canada, your JV with HEXO? How's that business doing? Just a little bit of context would be great.

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

A

Doing really well. We didn't invest a lot in our cannabis business, certainly not anything like what some of our competitors have invested in the space. We've been in the market now for, well, certainly less than a year, somewhere between six and nine months. We're already the number one cannabis-infused beverage in Canada. We've got 6 of the top 10 SKUs from a revenue point of view. So, we're off to a very good start.

And I think the true potential of our brands will only be fully realized once all the lockdowns have been lifted, because that they have affected the ability to – for the industry to open more cannabis stores. They've affected foot traffic into stores. It has not been easy. The pandemic hasn't made it easy. Notwithstanding that, we're the number one in Canada. And so, we're very pleased with that.

A significantly less investment, we think we've chosen the right partner in HEXO. We formed another JV with them in Colorado to launch CBD beverages, which we did a few at the beginning of this year. And obviously this is a space that we think has – this is a long-term plan, this isn't a short-term plan.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Okay. Now, the JV in Canada is focused purely on beverages, is that right?

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

A

Correct, yes.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Correct. What technologically – I mean I've always heard that there were three challenges. One was just making sure the THC didn't separate in the can. Second was just around masking the flavor of the THC. And the third one was early onset. What has the JV done to address those technical problems around THC in beverages?

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

I think that's where we've – I mean we did a lot of due diligence before we chose a partner in Canada, Trevor, and I think with hindsight, we chose the right one from a technology point of view. I'm told that the flavor is very stable and very drinkable, and the onset times are exactly what folk would be looking for. So, from a technological point of view, I think we've got a home run there.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay. But then when it comes to the US, are you still waiting for federal legalization before you expand into THC beverages in the US?

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

Well, our first foray is into CBD. We're using the – I mean we're getting lots of learnings up in Canada. There is a lot of brand building that's taking place in Canada. And we've taken the Canadian CBD beverage and that's the one that we're launching down in – or have launched in Colorado.

I think from a legal landscape point of view, Trevor, we'll wait and see. I mean it's obviously got bigger implications for us if we got into that space before there was clarity from a legal point of view. Colorado has got the clearest legal clarity, which is why we chose that state to launch in with CBD first.

Trevor Stirling
Analyst, Bernstein Autonomous LLP
Q

Okay. So, I'm just looking at the online questions coming in, Gavin, one, a bit more technical was talking about gap between STRs and STWs. How much inventory catch-up is there at the end of Q1? And what we should be expecting across the balance of the year?

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

Well, obviously the Texas storm and the cyber security attack set us back. And it required us to put out a recovery plan, which was primarily focused on our core brands and our above-premium brands, Miller Lite, Coors Light, Keystone, Miller High Life, Coors Banquet, Blue Moon, Blue Moon LightSky and so on. It didn't impact our ability to deliver any of our innovation. So, innovation was pretty much unimpacted by the cybersecurity attack.

Now, Q2 is a big quarter for us. It always has been, it always will be, right? It's a big consumption period for us. So, we [ph] won't (00:45:38) make a lot of headway on inventory levels in Q2, but just because it's a big consumption and we're shipping everything we possibly can, and that's why we said that the recovery on inventory levels will, from an overall point of view, take place more in the second half of the year than it will in Q2.

Our objective was to get our core brands in a better place by Memorial Day, and I've been public about the fact that we actually – we're slightly ahead of what our expectations were from a supply chain point of view, and then to be in a good place heading into July the 4th. So far, we're ahead of plan from that perspective.

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Yeah. The Q1 results, Gavin, you commented that the April STRs had quite a step up. I'm not going to ask you about May STRs you can be assured, but can just talk a little bit about why was there that big step-up in April in the underlying STRs?

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

A

Yeah, there's a lot going on in the second quarter, Trevor, from a comparisons point of view as to what happened last year versus what happened this year. Obviously in this sort of April, May timeframe, we had some really big sort of load in pandemic buying. On the flip side, though, we had on-premise, which was pretty much shut down. I mean 100% in Canada, in the US and in Europe. And so, there's a lot going on in there. Yeah, I don't want to expand beyond what we said on the earnings call, Trevor. But there's a lot of moving parts. I mean we – I think I've been public about the fact that in last year, July the 4th is normally our biggest week of the year, and last year I think we had five weeks of July the 4th as we had the surge buying from a pandemic [indiscernible] (00:47:28)...

Trevor Stirling
Analyst, Bernstein Autonomous LLP

Q

Yeah. Yeah. A lot of moving parts going on. And Gavin, conscious of time, we probably need to give you a bit of time to get ready for your next meeting. And just let me take a look to see anything more that's coming in that we haven't actually talked about, yeah, good one here. Your capital allocation priorities, you and I've talked about it earlier on, but I think just as you're thinking, as a former CFO, all the cash is coming off. What are you going to do with it?

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

A

Well, I think we've made it – we've done a really nice job in the middle of a pandemic to pay down close to $1.2 billion worth of debt. We've got another $1 billion coming up in the second half of this year, you can see that in our filings. We had to make the tough choice to suspend the dividend last year to make sure that we shored up our liquidity and all the uncertainty. And being a investment grade company is important to us.

We've been clear about the fact that we think that the board will be in a position to reinstate a dividend in the second half of this year. And we're in conversations with them as to what that would look like and how we would reinstate it. And we've put targets out there in terms of leverage, so we think we'll be around 3.25 times at the end of this year. And we think we'll be below 3 times by the end of next year, which given everything that's been thrown at us, we're particularly pleased about, Trevor.

In terms of capital allocation, obviously we'll make choices at that time, right, because circumstances do change. We did implement PACC model in Molson Coors many years ago. And everything we do is with the objective of driving shareholder value and our capital allocation decisions won't deviate from that objective. Thank you.

Trevor Stirling

Analyst, Bernstein Autonomous LLP

Gavin, fantastic to catch up with you after so many years. Thank you very much for taking the time to be with us today.

Gavin D. K. Hattersley

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

Thanks Trevor. Good to be with you.

Trevor Stirling

Analyst, Bernstein Autonomous LLP

Thank you. Thank you. Goodbye everyone.