

# Molson Coors Beverage Company

## 4Q EPS beat; FY24 outlook calls for sales & EPS growth

Maintain Rating: NEUTRAL | PO: 72.00 USD | Price: 61.31 USD

### 4Q adj. EPS of \$1.19 ahead of both BofAe and consensus

4Q23 adjusted EPS of \$1.19 was ahead of our forecast of \$1.09 and Visible Alpha consensus of \$1.13. EPS upside versus our forecast was driven by better-than-expected sales (Americas missed, EMEA & APAC beat), gross margins and other income. Americas brand volumes (+6.7% y/y/U.S. +8.5%) came in ahead of our forecast of +6.0% and improved versus the prior quarter (+6.1% after adjusting for the additional selling day). Americas gross margins of 39.4% surpassed our forecast of 38.1% and COGS per HL was down (-0.7% y/y) for the second consecutive quarter. Americas MG&A spend was up +16.1% y/y and driven by increased marketing investment and higher incentive compensation expense.

### FY24 outlook: expect sales and EPS growth

TAP also introduced its FY24 financial outlook and key components include: 1) organic sales up low -single digit (BofAe +0.1%, consensus +0.6% & Algo. +LSD). 2) underlying income before income taxes up mid-single digit (BofAe +2.8%, consensus +1.1%). 3) Underlying EPS growth up mid-single digit (BofAe +7.1%, consensus +3.1% & Algo. +HSD). 4) Free cash flow of \$1.2bn, plus or minus 10%. 5) Net interest expense of \$210.0mm, plus or minus 5%. 6) Underlying effective tax rate in the range of 23% to 25%. 7) Capex of \$750mm, plus or minus 5%. 8) Underlying depreciation \$700mm, plus or minus 5%.

### Maintain Neutral and \$72 PO

We maintain our Neutral rating and \$72 PO that is based on 11.8x our FY25 EPS<sub>e</sub>. At 11.8x, we value TAP shares below its 10-year average forward price to earnings multiple and a discount to brewer peers. We believe this reflects near term share gains, underlying improvement operations balanced against questions about the sustainability of sales growth and market share over time.

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#### Stock Data

Price	61.31 USD
Price Objective	72.00 USD
Date Established	4-Oct-2023
Investment Opinion	B-2-7
52-Week Range	49.32 USD - 70.90 USD
Mkt Val (mn) / Shares Out (mn)	13,464 USD / 219.6
Free Float	90.9%
Average Daily Value (mn)	96.67 USD
BofA Ticker / Exchange	TAP / NYS
Bloomberg / Reuters	TAP US / TAP.N
ROE (2023E)	8.9%
Net Dbt to Eqty (Dec-2022A)	46.2%
ESGMeter™	High

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LSD: low-single digit

MSD: mid-single digit

HSD: high-single digit

Consensus refers to Visible Alpha Consensus

# Variance

## Exhibit 1: TAP income statement variance

4Q23 EPS of \$1.19 beat our estimate of \$1.09

Variance	4Q23A	4Q23E	A vs. E	Per Share	4Q22	% Chg
Financial volume (HL)	19.849	19.923	(0.1)		19.7	0.8%
Sales/HL	140.6	137.6	3.0		133.6	5.3%
<b>Net sales</b>	<b>\$2,790.8</b>	<b>\$2,741.4</b>	<b>\$49.4</b>	\$0.18	<b>\$2,629.5</b>	6.1%
COGS/HL	87.7	86.9	0.8		85.5	2.6%
COGS	<u>1,740.7</u>	<u>1,732.2</u>	<u>8.5</u>	<u>\$0.03</u>	<u>1,682.7</u>	3.4%
<b>Gross profit</b>	<b>\$1,050.1</b>	<b>\$1,009.2</b>	<b>\$40.9</b>	\$0.15	<b>\$946.8</b>	10.9%
MG&A	<u>682.8</u>	<u>662.0</u>	<u>20.8</u>	<u>\$0.07</u>	<u>574.8</u>	18.8%
<b>Operating income</b>	<b>\$367.3</b>	<b>\$347.2</b>	<b>\$20.1</b>	\$0.07	<b>\$372.0</b>	-1.3%
Interest expense	(46.1)	(47.5)	1.4	\$0.01	(57.7)	-20.1%
Equity income	(0.8)	-	(0.8)	\$0.00		
Other income/expense, non-core	<u>25.4</u>	<u>4.0</u>	<u>21.4</u>	<u>\$0.08</u>	<u>13.3</u>	91.0%
<b>Adjusted pretax number</b>	<b>\$345.8</b>	<b>\$303.7</b>	<b>\$42.1</b>	\$0.15	<b>\$328.6</b>	5.2%
Income tax	<u>86.2</u>	<u>69.9</u>	<u>16.3</u>	<u>\$0.06</u>	<u>46.0</u>	87.4%
<b>Net income from continuing operations</b>	<b>\$259.6</b>	<b>\$233.9</b>	<b>\$25.7</b>	\$0.09	<b>\$282.6</b>	-8.1%
Non-controlling interests	<u>(2.2)</u>	<u>-</u>	<u>(2.2)</u>	<u>-\$0.01</u>	<u>(0.7)</u>	214.3%
<b>Adjusted net income</b>	<b>\$257.4</b>	<b>\$233.9</b>	<b>\$23.5</b>	\$0.08	<b>\$281.9</b>	-8.7%
Charges/gains/other	<u>(154.1)</u>	<u>-</u>	<u>(154.1)</u>	<u>-\$0.55</u>	<u>(872.4)</u>	-82.3%
<b>GAAP net income</b>	<b>\$103.3</b>	<b>\$233.9</b>	<b>-\$130.6</b>	-\$0.47	<b>-\$590.5</b>	-117.5%
Diluted shares outstanding	216.6	214.4	2.2	-\$0.01	216.6	0.0%
<b>Adj Diluted EPS</b>	<b>\$1.19</b>	<b>\$1.09</b>	<b>\$0.10</b>		<b>\$1.30</b>	-8.7%
Dividend per share	\$0.41	\$0.41	\$0.00		\$0.38	7.9%
Payout ratio	35%	38%	-3%		29%	530bps
<b>Margin analysis</b>						
Gross margin	37.6%	36.8%	81bps		36.0%	162bps
MG&A as a % of net sales	24.5%	24.1%	32bps		21.9%	261bps
Operating margins	13.2%	12.7%	50bps		14.1%	-99bps
Adj EBITDA margin	0.0%	0.0%	0bps		0.0%	0bps
Tax rate	24.9%	23.0%	193bps		14.0%	1093bps

Source: Company reports, BofA Global Research

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## Price objective basis & risk

### Molson Coors Beverage Company (TAP)

Our PO of \$72 is based on a 11.8x multiple of our FY25 EPS estimate. At 11.8x, we value TAP shares below its 10-year average forward price to earnings multiple and a discount to brewer peers. We believe this reflects near term share gains, underlying improvement operations balanced against questions about the sustainability of sales growth and market share over time.

Upside risks to our PO: 1) Beer trends in the US pick up. 2) Stronger price realization. 3) Initiatives related to the revitalization plan have a meaningful impact on sales growth.

Downside risks to our PO: 1) Continued lackluster trends in the US and Canada. 2) Revitalization plan is unable to put the business in a better position for the future. 3) Consumer preference for other types of alcohol products (hard seltzers, wine & spirits) grows.

## Analyst Certification

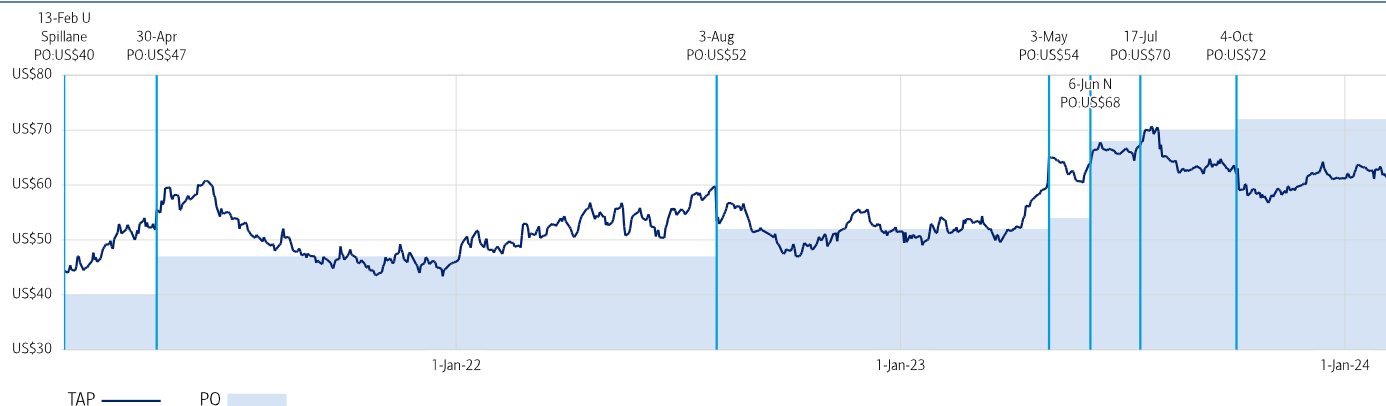
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### Molson Coors (TAP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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