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EDITED TRANSCRIPT

TAP - Q4 2014 Molson Coors Brewing Company Earnings Conference Call

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OVERVIEW:

Co. reported 4Q14 underlying after-tax income of $102.1m and diluted EPS of $0.55.

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PRESENTATION

Operator

Welcome to the Molson Coors Brewing Company fourth-quarter 2014 earnings conference call. Before we begin, I will paraphrase the Company's Safe Harbor language. Some of the discussions today may include forward-looking statements. Actual results could differ materially from what the Company projects today. Please refer to the most recent 10-K and 10-Q filings for a more complete description of factors that could affect these projections. The Company does not undertake to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made.

Regarding any non-US GAAP measures that may be discussed during the call and from time to time by the Company's executives in discussing the Company's performance, please visit the Company's website, www.molsoncoors.com, and click on the financial reporting tab of the Investor Relations page for a reconciliation of these measures to the nearest US GAAP results. Also, unless otherwise indicated, all financial results the Company discusses are versus a comparable prior-year period and in the US dollars.

Now I would like to turn the call over to Mark Hunter, President and CEO of Molson Coors.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Thank you, Leanne, and hello and welcome, everybody, to the Molson Coors earnings call. Many thanks for joining us today. With me on the call this morning from Molson Coors we have Gavin Hattersley, our CFO; Stewart Glendinning, our Canada CEO; Simon Cox, our newly appointed CEO of Europe -- congratulations, Simon; Kandy Anand, our international CEO; Sam Walker, our Chief Legal and People Officer; Brian Tabolt, our Controller; and Dave Dunnewald, VP of Investor Relations. We also have Tom Long, CEO of MillerCoors with us. Congratulations, Tom, and best wishes for your retirement announced earlier today. On the call today, Gavin and I will take you through highlights of our full-year and fourth-quarter 2014 results for Molson Coors Brewing Company, along with some perspectives on 2015.

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Overall, 2014 was a good year for Molson Coors. We grew net sales in constant currency and gross margin, as well as underlying EBITDA, free cash flow, after-tax income, and earnings per share. Weak consumer demand continued across our largest markets but we made good progress in building a stronger brand portfolio, delivering value-added innovation, strengthening our core brand positions and increasing our share in Above-Premium. We also continue to improve our sales execution and revenue management capabilities, increase the efficiency of our operations, implement common systems, and focus, importantly, on profit after capital charge as a key driver for our cash and capital allocation strategy.

In performance headlines for the year, we delivered $1.47 billion of underlying EBITDA and $768.5 million of underlying after-tax income, or $4.13 per diluted share. After-tax income grew 5.7% from a year ago. Excluding foreign currency movement since the termination of the Modelo joint venture in Canada, all of our business achieved improved underlying profit performance in 2014 versus the year before. We drove working capital performance company-wide and achieved $957 million of underlying free cash flow, which exceeded our original 2014 free cash flow goal by more than $250 million. And we expanded pack model deeper into our Company, including adding this measure to our long-term incentive plan.

We over delivered against our cost savings targets and we reduced our net debt by nearly $800 million. We grew our global above-premium volume, net pricing and sales mix and maintained market share in Europe despite a poor economy and really challenging floods in some of our high-share markets. Volume challenges included Coors Light performance in the US and Canada. However, Coors Light worldwide volume grew nearly 2% on the strength of its performance in Europe and international. We also cycled the termination of the Modelo brands joint venture in Canada.

Despite these challenges, our overall profit and cash performance helped to drive a positive total shareholder return of 35.7% in 2014, which is more than 2.5 times the total return for the S&P 500 index of large stocks last year. Based on this performance and our commitment to returning cash to our shareholders, we also announced Board approval today for a new four-year, $1 billion stock repurchase program and an 11% increase in our quarterly dividend. With this change, we have increased our quarterly dividend by 156% since 2007.

Now regional highlights for 2014 are as follows. In the US, underlying pretax earnings increased nearly 3%, driven by positive pricing, sales mix and cost savings. We grew revenue per hectoliter and increased our percent of sales in above-premium while working to restore growth to Coors Light and Miller Lite. Miller Lite returned to growth in the fourth quarter with a total brand overhaul and redesign focusing on the brand's authenticity and heritage. Coors Banquet grew volume for the eighth consecutive year. We also continue to grow the above-premium segment, with higher-margin offerings, notably: Redd's, Blue Moon Belgian White, and Leinenkugel's Summer Shandy. Brand innovations designed to drive margin improvement included: Miller Fortune, Smith & Forge Hard Cider, Redd's Wicked Apple and Coors Light Summer Brew.

Our Canada underlying earnings declined 7.1% due to unfavorable foreign currency movements and the impact of terminating our Modelo joint venture early in the year; which had a combined negative profit impact of approximately $35 million. Canada sales to retail, or STRs, declined 4.7%, with more than half of this decline due to the loss of the Modelo brands. Molson Canadian gained share in its segment and the combined Coors Banquet and Coors Light brand family grew Canada market share versus 2013.

In above-premium, Coors Banquet delivered strong volume and share growth, as did our Creemore craft brand, and we expanded Molson Canadian Cider and extended our partnership for the marketing and distribution of the Heineken and Strongbow brands. Margin-enhancing innovations introduced -- included introducing Mad Jack Apple Lager and new craft flavor extensions for Canada's consumers. During the year, our Canada team drove positive pricing and sales mix, achieved significant cost savings, and invested strongly in improving the efficiency of our brewery network.

Our Europe business in 2014 delivered higher net sales and gross margins, along with double-digit underlying pretax earnings growth. We worked against a weak economy all year and severe flooding in some of our highest share markets in early summer, clearly compounded the challenges. Nonetheless, we maintained market share across the region on the strength of our core brands, our above-premium portfolio and innovation. Our craft and above-premium brands performed well, with Coors Light, Doom Bar, Cobra and Staropramen, outside the Czech Republic, leading growth. Innovations during the year included Carling British Cider, new craft beer launches and cold-activated packaging across multiple markets.

Our international business delivered double-digit growth in volume, net sales and gross profit in 2014, despite the continuing challenges in Ukraine and Russia. Coors Light volume in Latin America continued to grow a strong double-digit rate and we recently launched Coors Light into Chile,

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and Coors 1873 in select Latin American markets. In India we grew volume at double-digit rates and increased our market share. As a result, with strong top-line growth and cost control we reduced underlying international loss by 17.9% versus the previous year.

Now, I'll turn it over to Gavin to give fourth-quarter financial highlights and a perspective on 2015. Gavin, over to you.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Thanks, Mark, and hello, everybody. In fourth-quarter financial highlights, Molson Coors net sales were down approximately 5% in US dollars, entirely due to foreign currency. Constant currency net sales grew nearly 1% on the strength of positive pricing and sales mix globally, along with higher volume in Europe and international. Worldwide beer volume for Molson Coors decreased 0.3% due to lower volume in the US and Canada, partially offset by growth in Europe and international. Underlying after-tax income decreased 21% to $102.1 million, or $0.55 per share.

Our underlying pretax income also decreased 21%, with approximately one-third of this change driven by unfavorable foreign currency and the balance due to increased brand investments and incentive compensation this year, along with lower volume in the United States and Canada and the termination of our Modelo brands agreement in Canada. Foreign currency had a negative $11 million, or 31% impact on pretax income in the quarter.

On a US GAAP basis we reported income from continuing operations contributable to Molson Coors Brewing Company of $93.2 million, which is 31.9% lower than in the prior year due to a higher effective tax rate, unfavorable foreign currency, lower worldwide volume, and increased brand investments. Our underlying EBITDA was $273.9 million in the fourth quarter, 14.6% lower than a year ago, driven by lower earnings the United States, Canada and Europe. Please see the earnings release we distributed earlier this morning for a detailed review of our business unit financial results in the quarter.

In the area of cost savings, we exceeded our 2014 goals by achieving more than $70 million of cost reductions across our Company, driven by Canada and Europe. These results exclude MillerCoors, which provided another $60 million of cost savings in 2014 and our 42% ownership rate. We expect cost savings over the next few years to be in our medium-term range of $40 million to $60 million and come primarily from Canada with dimension savings from Europe.

We also successfully concluded our three-year working capital initiatives, with a total improvement of $378 million since 2012, which is $78 million above our original target. We drove working capital lower by $66 million, $253 million and $59 million for 2012, 2013, and 2014, respectively. We intend to continue to push hard on working capital the years ahead to generate free cash flow.

We were also pleased that we exceeded our underlying free cash flow goal for 2014 by generating a total of $957 million of free cash, an increase of $65 million, or 70.3%, versus 2013. Higher underlying free cash flow was driven by increased distributions from MillerCoors and higher underlying income as well as lower cash paid for pension contributions, capital expenditures, interest and taxes. These improvements are partially offset by a decreased benefit from changes in networking capital.

Our 2014 free cash flow included the following factors. $1.27 billion of operating cash flow and $56 million of net deductions, mainly cash received for the accelerated termination of the Huntington contract brewing agreement in the United Kingdom and the Modelo joint venture and Miller brands agreement in Canada, which were partially offset by cash used for restructuring activities. Investing cash outflows include $260 million of capital spending. Our cash flows to and from Miller Coors were broadly neutral. A detailed reconciliation of our 2014 underlying free cash flow is available in our earnings release this morning.

Total debt at the end of the fourth quarter was $3.187 billion and cash and cash equivalents totaled $625 million, resulting in net debt of $2.562 billion, which is $171 million lower than at the beginning of the fourth-quarter and $796 million lower than a year ago. During the past several years we have used our cash not only for growth opportunities but also to continue to strengthen the Company's balance sheet and to more than double our dividends per share. The combination of strong cash generation and significant debt reduction now gives us the opportunity to increase returns to shareholders through a stock repurchase program.

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Our Board has approved a new program to repurchase up to $1 billion of the Company's Class A and Class B common shares, which we expect to implement over the next four years. We anticipate that the stock repurchases will be weighted towards the last two years of the program. This new stock buyback program reflects our continued confidence in the long-term growth and cash generating potential of our Company, as well as our commitment to returning cash to our shareholders. Also, our Board has authorized another increase in our quarterly dividend, from $0.37 per share to $0.41 per share beginning in the first quarter of 2015. This 11% increase results in annual dividend amount of $1.64 per share, which represents a payout ratio of 20.6% of 2014 underlying EBITDA.

We continue to target a dividend payout in the range of 18% to 22% of trading underlying EBITDA, which we anticipate will keep our dividend in a competitive range for global beer companies for the foreseeable future. With the buyback and dividend announcements today, we are pleased to be in a strong position to increase cash returns to Molson Coors shareholders while preserving financial flexibilities to explore growth opportunities and meet our pension obligations in the future. As always, potential cash uses will be weighted by our discipline process, including our pack model and must meet our firm criteria providing a clear view to near-term earnings accretion and building long-term shareholder value.

Looking forward to 2015, our underlying -- our annual target for underlying free cash flow is $550 million, plus or minus 10% at January 31 foreign currency rates This goal is $407 million lower than our 2014 results because of five primary factors. Our strong push on working capital had better results than expected in 2014, including from MillerCoors, and some of these improvements were originally expected to be achieved in 2015. Secondly, some of our large customers paid invoices early, which we were not expecting and unlikely to repeat. At current rates we expect foreign currency to be a significant headwind for both cash and profit generation in 2015. More on this in a few minutes from Mark.

We anticipate increasing capital investment behind cost savings projects and innovation to drive future growth, profit, and improved volumes. Finally, increased cash tax payments as we continue to move towards a cash tax rate closer to our normalized effective tax rate. Over the two-year period of 2014 and 2015, we expect to deliver more than $1.5 billion in underlying free cash flow, which averages at the top end of our original cash guidance range for last year. Currently, we expect cash contributions to our defined benefit pension plans to be in the range of $300 million to $320 million in 2015, up from $75 million last year including our 42% of MillerCoors contributions.

This increase is primarily due to an additional voluntary contribution of approximately $230 million we made earlier this year to our UK pension plan, as well as moderately higher contributions to the Canada and MillerCoors plans. We do plan to exclude the additional UK contribution from our underlying free cash flow calculation as we have done in the past. Meanwhile, we anticipate 2015 pension expense of approximately $27 million, down slightly from $32 million last year. Note that all of these pension numbers include our 42% of MillerCoors. The overall funded status of our defined benefit pension plans, again including MillerCoors, declined about 2 percentage points from a year ago to 90% at the end of 2014. This decrease was driven by lower year-end interest rates and longer life expectancies for pensioners versus a year ago.

Our 2015 capital spending outlook is approximately $330 million, up from $291 million last year, primarily due to planned supply turn capital projects in Canada and keg purchases in Europe. We expect our 2015 MG&A expense in corporate to be approximately $110 million. Our consolidated net interest expense outlook for 2015 is approximately $120 million. We expect our 2015 underlying effective tax rate to be in the range of 18% to 22%, assuming no further changes in tax laws, settlements of tax orders or adjustments to our uncertain tax positions. We continue to expect our long-term tax rate in a range of 20% to 24%.

A far as cost outlook is concerned, in the US we expect Miller Coors cost of goods sold per hectoliter to increase in the low single-digit rate for the full-year 2015. In Canada, we expect our 2015 COGs to increase at a mid-single-digit rate per hectoliter in local currency. In Europe, we anticipate a mid-single-digit decrease in cost of goods sold per hectoliter this year in local currency and our international business anticipates a low-double-digit decrease, primarily due to changes in geographic mix and foreign currency. In each of our businesses we anticipate higher costs related to product and package innovation. At this point, I'll turn it back over to Mark for outlook, wrap up, and the Q&A. Mark?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Thanks, Gavin. In 2015 we will continue to drive our strategy of building a stronger brand portfolio that's delivering value-added innovation while strengthening our core brand positions and increasing our share in above-premium, craft and cider. We will do this while ensuring that we have a fit-for-purpose cost base and a deeply embedded pack light capital allocation approach. 2015 and beyond, I will additionally be leading (technical

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difficulty) relentless focus on delighting our consumers and their customers to ensure we're the first choice brewer in the geographies and segments where we choose to play.

2015 will, however, throw a number of challenges our way. For nearly a year, we have flagged for you that we expect our effective tax rate to be higher than last year. We also anticipate substantial profit and cash headwinds from foreign currency and the termination of three business contracts this year. To provide a sense of our FX challenge, if we were to apply foreign exchange rates at the end of last month to our 2014 results, it would reduce last year's underlying pretax earnings by more than $70 million, or approximately 8%, and impact on cash would've been even larger.

Our 2015 financial results will also be negatively affected in the UK by the termination of our Modelo distribution agreement and the termination of our contract brewing arrangement with Heineken at the end of April. In Canada, we are terminating our Miller brands agreement at the end of March. We expect the loss of these three contracts to present of pretax profit headwind this year totaling approximately $40 million. We are taking actions to lessen the impact of losing these income streams, including the proposed closure of our Alton brewery, to adjust our UK cost base to reflect the loss of the Heineken contract volume along with the addition of the FEMSA brands to our business in Canada and adding the Modelo brands in central Europe.

Regionally, in the US, job number one is to drive per share in American light lagers, making sure consumers know the rich heritage behind Miller Lite and the cold-filtered Rocky Mountain refreshment of Coors Light. In 2014 we returned Miller Lite to growth in the fourth quarter with a total brand overhaul and redesign, focusing on the brands authenticity and heritage. In 2015 we'll bring the same focus and intensity to returning Coors Light to growth by restaging the brand while maintaining our core messaging around Rocky Mountain refreshment.

In addition, we'll continue to transform our portfolio to above-premium, with innovations like Redd's, Smith & Forge Hard Cider, and further extensions from Leinenkugel's and Blue Moon, such as our new Blue Moon White IPA. We'll continue to build first-choice customer partnerships, working with our distributors to bring more resources to the on-premise with our building-with-beer retail strategy, which leverages the higher velocity and broad appeal of American light lagers. Overall, we will invest significantly in our brands and information technology, and as a result, we do not expect to grow our US operating margins in 2015.

The Canada market remains weaker than the US and our team will continue to invest in supply chain efficiency and capability to streamline our Canada cost base. In core brands, Molson Canadian just introduced the next chapter of its Beer Fridge campaign and Coors Light will see more retail programming and new advertising later this quarter.

In above-premium, consumer demand remains strong for Coors Banquet, Molson Canadian Cider, and Mad Jack Apple Lager. And last month we began the national launch of Coors Altitude, a 6.4% ABV lager that's a refreshing alternative to spirits. This year we also plan to introduce Rickard's Radler as a seasonal. And in addition to Heineken and Strongbow, we are now marketing and distributing the rest of Heineken's top-end import brands in Canada, including Dos Equis, Tecate, Sol, Moretti, and Desperados.

The Europe economy continues to struggle with weak overall consumer demand and a deflationary backdrop. We expect ongoing growth of the value segment and lower margin channels, and pack configurations to be challenges again in 2015. Our segment-leading core brands such as Carling, Burgasko, and Jelen will continue to be heavily invested in 2015 while we continue the strong momentum of our above-premium, craft and cider portfolio. We're also adding the Modelo brands to international premium brand portfolio in central Europe this year, but volume for these brands is currently much smaller than the annualized volume of the brands that we're losing in the UK.

Our international business will focus on growth and expansion in new and existing markets. We will continue to drive strong momentum on Coors Light and Coors 1873 in Latin America, along with growth in our India business. At the same time, we will remain disciplined with our cost base as we move towards our goal of achieving profitability by 2016.

Finally, here the most recent volume trends for each of our businesses very early in the first quarter. In the US through January STRs decreased at the low-single-digit rates. In Canada for January, they were down high-single digits; however, excluding the Modelo brands, last year our Canada STRs in January decreased to a mid-single-digit rate. Our January sales volume in Europe decreased a low double-digit rate. Excluding the Modelo brand volume in the UK last year, our volumes in Europe decreased a high-single-digit rate, primarily due to weak post-holiday sales in the UK. Our

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international sales volume, including royalty volume, increased a mid-single-digit rate. As ever, please keep in mind that these numbers represent only a portion of the current quarter and trends could change in the weeks ahead.

So to summarize our discussion today, we achieved good results in 2014 and built a stronger business. We grew underlying earnings and margins and we exceeded our goals for cost savings, cash generation and debt pay down, despite significant headwinds during the year. And, based on our continued confidence in the long-term growth and cash generating potential of our Company, as well as our commitment to returning cash to our shareholders, we announced a double-digit increase in our quarterly dividend along with a new stock repurchase program.

Now before we start on the Q&A portion of the call, just a quick comment. As usual, our prepared remarks will be on our website for your reference within a couple of hours this afternoon. Also, at 1PM Eastern Time today, Dave Dunnewald will host at follow-up conference call, which is an opportunity for you to ask additional questions regarding our quarterly results. This call will also be available for you to hear via webcast on our website. So at this point, Leanne, we'd like to open up for questions, please. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Judy Hong, Goldman Sachs.

Judy Hong - *Goldman Sachs - Analyst*

Thank you. Hi, everyone.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Hi, Judy.

Judy Hong - *Goldman Sachs - Analyst*

Gavin, maybe starting with your free cash flow guidance for 2015, if we just look at your two-year average for the last two years, $750 million, it still looks like it's a step down in terms of $200 million. I know you talked about some of the factors that are driving the decline, but can you also just quantify the bigger headwinds that you face, the decline in terms of year over year from a free cash flow guidance perspective?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Thanks, Judy. I'll just pass that straight across to Gavin. Gavin, do you want to take that one?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Sure. Hi, Judy.

Yes, I think if you want to compare the run rate, as you say, it's on average about $750 million for the two years. I guess the biggest item that wasn't there in 2014 or 2015 will be the foreign exchange headwinds that we are experiencing, Judy. Mark did reference that in his prepared remarks and

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from a profit point of view, if you're using January 31 rates, that would be around $70 million and from a cash point of view, that's slightly higher. That's probably the biggest headwind.

Then I would say the second one is our desire to increase our capital investments behind some cost savings initiatives, primarily in Canada, but also innovation, and, as I said, keg purchases in Europe. And then, I guess the third item would be increased tax payments as our cash tax rate moves closer to our more normalized effective tax rate. I would say those are the three biggest items, if you are comparing the ongoing run rate with the past.

Judy Hong - *Goldman Sachs - Analyst*

Okay. And then, within that context, as we think about your new buyback announcement of up to $1 billion over a four-year period, obviously encouraging to see you are returning more cash to shareholders. At the same time I think you've commented that that buyback will be more backend loaded. Can you just give us some perspective on the timing of the buyback, whether it's because of the free cash flow guidance for this year, or are there any M&A opportunities in terms of looking at the pipeline that you want to preserve some of that financial flexibility?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Hi, Judy. It's Mark, here.

I think just as context to the buyback, I would direct you back to the guidance and the philosophy we have around use of cash within the business and we've said that, certainly as an executive team and as a Board, we want to strike the right balance across three critical priorities, so we will continue to strengthen our balance sheet and further reduce liabilities.

Clearly, we have some pension liabilities that we need to deal with as we go through 2015. We will focus on returning cash to shareholders and we want to remain open to brand-led growth opportunities, so I think what we're attempting to do is strike the rate balance here and the phasing of the buyback, I think, reflects our need to retain that balance. I don't know, Gavin, whether you'd want to add to that?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Yes. Judy, the only things I would add to that is our guidance for 2015 on free cash flow is $550 million. A little over $300 million of that is going for cash dividends, and I did reference the special pension contribution we made to the UK, which is obviously taking place in 2015. In fact, it's already taken place and that amounts to about $230 million.

Judy Hong - *Goldman Sachs - Analyst*

Got it. And then just quick last question. You cited higher incentive compensation expenses in the corporate line to be in the fourth quarter and just wanted to see if you can quantify how much the increase was?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Not quantifying specifically that, Judy, but I would also site some negativity in foreign exchange in the fourth quarter for the corporate division as being a driver for the increase there.

Judy Hong - *Goldman Sachs - Analyst*

Got it. Okay. Thank you.

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Gavin Hattersley - *Molson Coors Brewing Company - CFO*

In fact, foreign exchange was the larger driver in the fourth quarter for corporate.

Judy Hong - *Goldman Sachs - Analyst*

Understood. Okay. Thank you.

Operator

Vivien Azer, Cowen.

Vivien Azer - *Cowen and Company - Analyst*

Hi, good morning.

I apologize, I was not on the 9 AM call, so I was hoping to first ask a question on MillerCoors. If you could offer a little bit more color on the deceleration that you saw for the above-premium segment, please, in the quarter?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Sure. I think we have Tom on the line. Tom, are you with us this morning?

Tom Long - *MillerCoors - CEO*

Yes, I'm here, Mark.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Tom, do you want to pick up and talk about our ongoing ambition to continue to move our portfolio in an above-premium direction and reflect a little bit on the short-term Q4 performance?

Tom Long - *MillerCoors - CEO*

Yes, thank you.

The Tenth and Blake division, which is a big portion of our above-premium business, did decline low-single digits in Q4. It's primarily due to declines in strategically de-prioritized brands like Killian's and Batch 19, and Q4 growth in Leinenkugel Shandy didn't offset that. That cyclical and that's behind us.

The very important strategy of transitioning our portfolio continuously year after year into the above-premium remains intact and we had pretty good numbers. 14.9% of our business is now in that above-premium. It was up 1.2 percentage points last year. So that continues.

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We've got a terrific portfolio of innovation for this year, including Blue Moon Horchata, Blue Moon White IPA, Leinenkugel's Cranberry Ginger and IPL as well as more innovation on Redd's. In March, we're launching Redd's Green Apple, which has been a terrific innovation at very high margin. That strategy remains intact and we'll look forward to advancing it in 2015.

Vivien Azer - *Cowen and Company - Analyst*

Terrific, Tom. Thank you so much and congratulations on the retirement.

My second question has to do with Europe. Clearly the investments that you made paid off from a volume perspective, so as we think about 2015 with an incredibly volatile macro backdrop continuing to present potential headwinds, how should we think about the balance between volume growth and profitability, please?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Thanks, Vivien. It's Mark here, again. I'll hand over to Simon just in a second.

I think it's fair to say, certainly, the economic challenges in Europe that we are looking into 2015 are not unusual and not very different to what we've been dealing with over the course of the last 18 to 24 months. Our business is working very, very hard to make sure that we continue to manage our cost base very effectively and we drive our portfolio in a more premium direction so that if pricing is difficult or challenging in Europe, that we get a positive mix impact.

Simon, do you want to add any color to that?

Simon Cox - *Molson Coors Europe - CEO*

Yes, I think you've hit the headlines there, Mark.

As was referenced, we've got a good track record, I think, between balancing volume growth and profitability. If you look back through 2014, I think the trends in 2015, in terms of the market demand of the consumer, will be very similar, and we've shown an ability to withstand that. Highlights for 2014, I would point you to Staropramen growth outside the Czech Republic in a premium position product. We've done well with above-premium products like Coors Light, Doom Bar and Cobra in the UK, which helps our mix and our revenues, and we've done well on things, similar innovations, so Carling British Cider, both in the UK and Cherry Cider across Europe, some of our craft launches and some of our cold packaging.

So when we manage that portfolio well, investing behind the premium brands and in the core brands, we're able to, despite a difficult consumer backdrop, quite elegantly navigate that volume growth and profitability mix. We'd be confident that we can do that again, but I'd certainly point you to the 2014 results as evidence.

Vivien Azer - *Cowen and Company - Analyst*

Thank you so much. Very helpful.

Operator

Bryan Spillane, Bank of America/Merrill Lynch.

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Bryan Spillane - *BofA Merrill Lynch - Analyst*

Hey, good morning, everyone.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Hi, Bryan.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Just a couple of points of clarification and then a question. First, in terms of the free cash flow guidance, does that include -- that's inclusive or net of the pension contribution, as well?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

No, Bryan, that's before the pension contribution.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay. And then in terms of Coors Light, and a couple of questions related to Canada, did you actually mention what Coors Light did in the fourth quarter? I might have missed that.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

I don't think we did mention it. Stewart, do you want to touch on the Coors Light performance in Q4? Probably (multiple speakers) we said that in the context here of the broader Coors brand family performance, which we're very encouraged by.

Stewart Glendinning - *Molson Coors Canada - President & CEO*

Yes, thanks for that, Mark. Bryan, Coors Light actually had a very -- a much better Q4. Brand was down a couple of percent, but on a sequential basis performance was much, much better. If you took Coors Light and Banquet together, those brands were flat. So good result for the Coors family in total.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

So can we read into that -- I know there's been a lot of considerable amount of focus trying to restage the Coors Light brand in Canada. Can we read into this there's been some traction in terms of some of the actions you have taken to get Coors Light re-stabilized or back to growth, or on a path to growth?

Stewart Glendinning - *Molson Coors Canada - President & CEO*

I think we've done good things in both Coors Banquet and with Coors Light. There's more work to be done with Coors Light, as we shared during the prepared remarks. We expect to see our new campaign released later this quarter. We've got an action-packed 2015, so yes, we feel good about the fourth quarter, but I think we're working hard on making sure that, that continues into this year.

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Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay, and there's just one last. Cost per hectoliter in Canada being up mid-single digits on a local currency basis, can you just walk through why -- our thought was that it might be a little bit lower, given where some of the raw material costs are. Could you talk through some factors that are driving it to the mid-single-digit rate?

Stewart Glendinning - *Molson Coors Canada - President & CEO*

Okay, yes. Look, sure. I think you've got to consider where you believe the average inflation to be and then we layer on top of that any expected deleverage. Those would be the big drivers. Of course, also we may see a little bit of FX impact as a result of US denominated imports like Banquet as well as any other products we buy out of the US.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Bryan, just one additional comment.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Bryan, I would just add to that. Obviously, the efforts which Stewart and his team are putting behind innovation will tend to drive COGS up from a mix point of view. And then we did have MMR for Q1 of 2014, so we'll deal the impact in Q1 of 2015 of not getting the cost recoveries coming through there. So those are two items I'd add to Stewart's --

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Bryan Spillane - *BofA Merrill Lynch - Analyst*

All right. That's helpful. There's a mix component that's driving it above and beyond just what you're paying for raw material.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Correct.

Bryan Spillane - *BofA Merrill Lynch - Analyst*

All right. Thank you very much.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Thanks, Bryan.

Operator

John Faucher, JPMorgan.

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John Faucher - *JPMorgan - Analyst*

Yes. Hi, good morning. I know Dave is going to be doing the modeling call a little bit later, but just conceptually, if we look at those two headwinds you talked about with the FX and lost contracts, that adds up to about $110 million. As we look to model this, if we strip out the MillerCoors piece, you are looking at a base probably of about $500 million from an operating profit, so it's a big slug there.

How do we think about the offsets? Or is that something where we say, with those -- you're just going to have those headwinds in it's just going to be a tough year and you work through them? I'm asking, what's the big offset relative to the $110 million headwind?

Thanks.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Hi, John, it's Mark here.

We don't give earnings guidance, as I think you are aware. What we've tried to do is, I think, give you transparency on a couple of areas which we'll be leaning into very, very hard through this year. I'm not going to give you a sense as to the mitigation plans, but take it from me that as an organization that we're lined up to continue to drive the underlying performance of the business, make sure we invest in the business for driving value over the medium- to long-term and we won't do anything that undermines the business to deflect some of those more material headwinds, other than continue to drive the performance across our bands and our cost base. I can't give you, and won't give you, any more specific detail than that.

John Faucher - *JPMorgan - Analyst*

Okay. If I can just follow up, and I apologize, because this might have come out in your answer to Bryan's question, but I just wanted to make sure. The FX guidance is inclusive of all the transactional pieces, et cetera. You mentioned Banquet -- shipping Banquet out of the US internationally. That's all inclusive in that $70 million some odd, is that correct?

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

John, let me take that one.

From an FX point of view, the $70 million which Mark referred to is a translational impact for Molson Coors and when you look at how the CAD has devalued since January of last year, it's around 14% and the euro's devalued about 17% to the end of January. In combination, that is what's driving primary the $70 million. Any FX movements that impact cost of goods sold would be included in the cost of goods sold guidance which we gave you by business unit.

John Faucher - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Ian Shackleton, Nomura.

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Ian Shackleton - *Nomura International - Analyst*

Good morning, gentlemen. Mark, this is obviously your first call as CEO, and I was quite interested in terms of what, perhaps, new priorities you see for the business that were not really talked about last year.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Hi, Ian.

A couple of comments. I think if you look at our performance through 2014 and our total TSR at growth, that for me underlines the validity of our existing strategy in the direction of travel of the business. All of our businesses grew underlying profit last year, when you strip out FX and the Modelo GAV, so I don't think our business requires any significant adjustment and direction of travel. So expect going forward more of the same, but flatter; relentless focus on really driving more of a first-choice consumer and customer agenda in our organization, really getting connected with what it's going to take to win in all of our markets at both a consumer and a customer level.

Look for an accelerated approach within MCI and also expect our pack model and our pack approach to be driven right to the front end of our business and to the shop floor. That's something which is already work in progress through 2015. So very much the same course of direction, but a heightened focus on three specific areas.

Ian Shackleton - *Nomura International - Analyst*

That's very useful, thank you. Just a couple of specifics. I think this is now the fourth quarter you had positive price mix in Canada. Does that give you confidence that that really is starting more of a trend going forward?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

I'm always weary about calling any quarterly performance a trend. I think we feel very good about the progress that Stewart and the team have been making in Canada. Both from a cost restructuring perspective, but also the focus in a tough volume market really continue to drive our NSR per hectoliter. I think the team have made continued progress through 2014 and that was, again, demonstrated in the final quarter. I think in a tough volume environment, we are focused in the right areas in our Canadian Business.

Ian Shackleton - *Nomura International - Analyst*

My final question was around oil. Obviously, there's presumably a little bit of benefit in some of the COGS guidance from lower oil, but I was particularly interested around distribution cost. I guess it's probably a bigger issue in Europe for you then in certainly in Canada. But is there a benefit there that we need to bear in mind for 2015?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

It's already contained really within the COGS guidance that we've offered, Ian. I wouldn't call it out as a particular material adjustment over and above the guidance that's been offered.

Ian Shackleton - *Nomura International - Analyst*

Okay. Thanks very much.

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Operator

Mark Swartzberg, Stifel Nicolaus.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Yes, thanks. Good morning, everyone. Two questions. One is really a follow-up to Bryan's on the COGS that you -- specifically, for the US. Canada, you are saying mid-single digits, and again we have this favorable input environment and we don't have transactional issues here in the US. So can you just speak more to why the plus low single-digits? Is it primarily a mix thing?

Then I had a second question.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Mark, I would just say it's primarily a mix issue, as they've put a lot of focus behind innovation. That's the simple and short answer

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Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Mark, the offset you will see comes through on the NSR-per-hec line, so I think Tom and the team of done a really good job, again in a tough volume market, of really focusing on driving the revenue line. You'll see the benefit from innovations come through. Tracey's already mentioned guidance on NSR per hec of 2% to 4% growth, so we've got to drive the innovation portfolio and that comes normally with a slightly higher cost at COGS level.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it. And then, as we think about the way you are budgeting for 2015 versus perhaps how you were budgeting a few months ago, pretty soft start to the year, and to John's question about -- and the numbers you've given us of about $110 million or so EBIT drag, is it fair to think that the soft start to the year had a big influence on how you are thinking about the budget you had a few months ago?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

No, I don't think it's fair to say that. Our budget was set coming through the fourth quarter of last year. As you know, certainly the volume numbers in the first few weeks of 2015 don't in any way lead us to change our thinking for 2015.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

Mark, the other thing obviously is January is a very small month for us, right? It's a small part of the first quarter. What maybe I haven't been clear on is we continue to drive on our cost savings program, so we're still driving on the $40 million to $60 million guidance which I gave a couple of years ago and we continue to put a lot of focus on that.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Got it. Great. Thank you.

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Operator

(Operator Instructions)

Robert Ottenstein, ISI.

Rob Ottenstein - *ISI - Analyst*

Great, thank you. There is a prior question on how much the incentive comp was up and you didn't want to answer that, and I understand that. But I was wondering if you could tell us to what degree the incentive comp is tied to cash flow generation and because the cash flow generation was so much higher than expected, that was the driver for the increase in the incentive comp?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Hi, Rob. It's Mark here.

We won't go into specific details of our compensation programs, but across our Business, our people are rewarded for top line, bottom line and cash performance and for our senior team there is also a longer-term component on pack. Beyond that, I won't go into any specific detail other than to say that the cash element is actually the smallest element of the compensation structure, so it doesn't have an overbearing impact on the total incentive line.

Gavin Hattersley - *Molson Coors Brewing Company - CFO*

I don't know if you were on the call earlier, but I would also add to that that actually the biggest part of the $6 million increase in corporate loss was related to unfavorable foreign currency movements. The lion share of it actually was.

Rob Ottenstein - *ISI - Analyst*

Okay. And a different question. In terms of Coors Light now globally, what percentage of the volume is sold outside of the US?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

That's a good question. Kandy, do you (multiple speakers) sense of that?

Kandy Anand - *Molson Coors International - CEO*

Rob, in terms of the Coors Light sales outside the US and Canada, that's your question?

Rob Ottenstein - *ISI - Analyst*

Beers global. Just the total Coors Light sales for the entire Company, how much is -- what percent of volume is US and what percent is international?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

That's not at our fingertips. We're just checking for you.

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Tom Long - *MillerCoors - CEO*

I think the 42%, Robert, would still be somewhat less than 50% of the global Coors Light sales that are sold outside the US. That would include places in Kandy's organization; that would include Canada; a really nice growth business in the UK. Those are the main headlines.

Rob Ottenstein - *ISI - Analyst*

Okay. You had the announcement that you were going to be taking the Coors brands into Chile, working with CCU on that, assuming. Would you also be interested, do you think, in going into Columbia with those brands?

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Rob, let me pass that across to Kandy.

Kandy Anand - *Molson Coors International - CEO*

Thanks, Rob.

Rob, overall, as you know, we are very pleased with our progress on Coors Light, especially in Latin America. The consumer, customer and our partner interest and acceptance of the brand is at a high level. They been growing strong double digits.

We've just launched the brand in Chile with CCU and we've also launched Coors 1873, which -- both of which, it's early days, are doing really well in the market. Beyond that we're not going to give you guidance on specific markets for obvious competitive and other reasons.

Rob Ottenstein - *ISI - Analyst*

Thank you.

Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Thanks, Kandy. Rob, just to come back to your specific question on the proportion of Coors Light volume outside of North America, so including Canada, it's about 15% to 17%, principally in international business and in our UK and Ireland business.

Rob Ottenstein - *ISI - Analyst*

Thank you very much.

Operator

(Operator Instructions)

We have no further questions at this time. I turn the call back over to our presenters for closing remarks

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Mark Hunter - *Molson Coors Brewing Co - President & CEO*

Okay. Thanks, Leanne, and many thanks, everybody, for joining us this morning. At Molson Coors Brewing Company we do appreciate your time and your questions and we look forward to speaking with you on our Q1 earnings call and then seeing many of you in New York at our analyst meeting later this year. Many thanks.

Operator

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

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