Constellation Brands Inc, Q3 2025, Earnings Call 2025-01-10

Presentation

Operator

Hello and welcome to the Constellation Brands Q3 Fiscal Year 2025 Earnings Call. — ***Operator Instructions*** — As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Joe Suarez, Vice President, Investor Relations. Please go ahead, Joe.

Joseph Suarez

Thank you, Kevin. Good morning, all. Happy New Year and welcome to Constellation Brands Q3 Fiscal '25 Conference Call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO. As a reminder, reconciliations between the most directly comparable GAAP measure and any non-GAAP financial measures discussed on this call are included in our news release or otherwise available on the company's website at www.cbrands.com. Please refer to the news release and Constellation's SEC filings for risk factors, which may impact forward-looking statements made on this call.

Following the call, we'll also be making available in the Investors section of our company's website a series of slides with key highlights of the prepared remarks shared by Bill and Garth in today's call. Before turning the call over to Bill, in line with prior quarters and as Kevin just noted, I'd like to ask that we limit everyone to 1 question per person, which will help us end our call on time. Thanks in advance and now here is Bill.

William Newlands

Thanks, Joe and welcome all to our Q3 fiscal '25 earnings call. As usual, I will start with a few key points regarding the quarter and our outlook for the remainder of the fiscal year.

First, growth in consumer demand for our beer portfolio sequentially expanded in the third quarter and this in turn drove a marginal uplift in depletions growth relative to Q2. This acceleration was supported by the incremental marketing investments we deployed across our core brands in Q3 as we responded to the softer macroeconomic backdrop that began affecting consumer spending during the summer.

As a reminder, subdued overall spend and prolonged value-seeking behavior among consumers, have been key near-term limiting factors on demand growth, not only for our portfolio but also for the dollar sales growth rate of total beverage alcohol. That said, beverage alcohol remains relatively unchanged in its share of total consumer expenditures. So we believe its slower rate of growth also reflects the adoption of broader value-seeking behavior across consumer goods. Against that backdrop and given the near-term uncertainty on whether consumers will revert to more normalized spending behaviors in Q4, we have made the decision to adjust the outlook for our fiscal '25 beer business net sales growth to be 4% to 7% and operating income growth to be 9% to 12%, still yielding an operating margin of approximately 39%.

Notwithstanding this prudent adjustment to our beer business guidance, our revised fiscal '25 comparable EPS range still yields double-digit growth from the midpoint to the high end, which includes other adjustments to our outlook that Garth will cover in more detail shortly. Second, despite softer consumer demand due to macroeconomic headwinds, our beer business continued to outperform the total beverage industry in dollar sales growth in Circana tracked channels over the 12 weeks ended December 1. And at a total company level, we once again achieved dollar sales growth outpacing the total CPG sector, as we approach nearly 12 years as a CPG growth leader.

Third, we continue to effectively execute against our key initiatives in our beer business. From a distribution perspective, we have now secured more than half of the incremental

500,000 points of distribution that we identified as the fiscal ’24 to fiscal ’28 target for our core brands during our Investor Day with a significant portion of those gains achieved in the current fiscal year. On the innovation side, the depletion growth contribution of our new liquids and pack formats released over the last couple of years is within the 20% to 40% range provided in Investor Day. That said, across our high-end light beer offerings, which include Modelo Oro from an innovation perspective and our more tenured Corona Light and Premier brands, we are facing headwinds from competitive pricing, particularly in large pack formats.

And across our Chelada brands, we are facing consumer demand growth rate headwinds from the convenience channel, where our Cheladas have outsized representation given the channel’s core consumer base and the predominantly 24-ounce can format that skews more towards C-store retailers. To that end, we are actively working on levers to address the competitive dynamics in the high-end light beer segment and continue to pursue distribution opportunities for Cheladas given our ongoing investments in broader marketing for the brands, including English language linear TV advertising for the first time and recent extensions into the 12-ounce can 12-pack formats.

We also continued to drive significant demand in our portfolio from new legal drinking age consumers and are pleased to have had a higher proportion of our dollar sales this year coming from 21 to 24 year olds as they have made more trips to the store and spend more on each trip across our brands. In fact, the share of spend for this demographic within our dollar sales is nearly twice that of the beer category and that share has grown at more than twice the rate of the category and the high-end segment relative to last year. Last but not least, we also continued to consistently deliver against our capital allocation priorities. We maintained a 2.9x net leverage ratio on a comparable basis in the third quarter, still slightly below our 3x target. We further advanced our brewery capacity investments and returned nearly $220 million to shareholders through share repurchases and over $180 million in dividends in Q3. This brings our total year-to-date cash returns through share repurchases to approximately $670 million or to more than $1.2 billion, including both repurchases and dividends.

With that, let's turn more fully to our beer business' performance. During the third quarter of fiscal '25, our beer business grew depletions by 3.2%, which again was an acceleration from last quarter despite continued consumer economic weakness. Shipments were up 1.6%, which as noted in our prior earnings call, trailed depletion growth due to the impact of planned maintenance activities at our breweries during the quarter. From a financial perspective, the business delivered net sales and operating income growth of approximately 3% and 2%, respectively, which included disciplined incremental pricing taking in the fall, which is in line with the 1% to 2% pricing expectations we provided for fiscal '25, another $40 million in cost savings achieved in Q3 as the persistent focus on driving savings and efficiency from our end-to-end supply chain team continues to deliver significant benefits to the business and incremental marketing spend for the third quarter that we announced in early September.

Now moving on to the performance of our largest brands. Modelo Especial grew depletions by over 3% and upheld its position as the top share gainer in U.S. tracked channels. We continue to see a long growth runway ahead for Modelo Especial, as significant opportunity remains across key metrics like awareness, distribution and household penetration relative to competitive brands. While Corona Extra depletions declined approximately 1%, it continued to increase its dollar share as a top 10 gainer in the category. We remain positive about the outlook for Corona Extra's growth as it continues to be the most beloved beer brand in the U.S. and has responded well to the incremental marketing spend deployed in Q3, particularly around the World Series.

Pacifico delivered another quarter of very strong depletion growth of nearly 20% and remained the #4 dollar share gainer across the total beer category. We continue to build on the momentum of this brand in its core Southern California market, where it is already the #3 beer brand but still growing double digits. At the same time, we are strategically expanding Pacifico into key metro markets across the country using the same thoughtful approach we applied to Modelo Especial, seeking to balance rising awareness and demand with the appropriate increases in distribution to support sustainable long-term growth.

Our Modelo Chelada brands delivered an increase of approximately 4% in depletions and Limón y Sal remained a top 15 share gainer in the category. As noted earlier, our Chelada brands are facing a challenging consumer backdrop in the convenience channel but we expect this to only be a near-term headwind and for the brands to return to the growth profile more in line with expectations provided at Investor Day.

All in, looking ahead, we aim to build on the sequential acceleration we have seen in volume growth across our core brands by continuing to make progress across the key volume growth drivers for the business, increased distribution, consumer-led innovation and attracting new legal drinking age consumers across our brands, as well as by deploying continued incremental marketing investments in Q4.

Moving on to wine and spirits. As announced last month, our decision to divest SVEDKA builds on the actions we have taken over the past several years to align our wine and spirits portfolio with evolving consumer preferences and growing market sectors, focusing on higher-end brands. To that end, we are pleased to announce this morning the closing of that transaction. And we look forward to continuing to drive the growth of our higher-end craft spirits portfolio, which in the third quarter delivered depletion increase of approximately 9%.

Conversely, the impact of ongoing consumer demand headwinds in the wine category, particularly in the lower-priced segments and of retailer inventory destocking remain the main drivers of a decline in wine and spirits shipments of 16% year-over-year, which in turn was the primary driver of the respective 14% and 25% declines in net sales and operating income for that business. Our fine wine portfolio, however, achieved depletion growth of 6%. And our largest premium wine brands, Meiomi and Kim Crawford, delivered depletion increases of over 7%. This is aligned with our focus on delivering growth and improving margins by driving our higher-end brands and operating efficiencies while also seeking to deliver value from our mainstream brands.

Against that backdrop, the business remains focused on continuing to advance in several areas. First, the tactical pricing and marketing support actions we are taking in selected markets to accelerate our top 10 largest brands; second, with better alignment with our distributor partners to help improve performance in our largest markets and channels; and third, cost savings and operational efficiency initiatives to drive leverage to the bottom line. In light of continued consumer demand headwinds previously noted, we have updated our fiscal '25 outlook for wine and spirits business to net sales and operating income declines of 5% to 8% and 17% to 19%, respectively.

In closing, we continued to manage a softer consumer backdrop due to macroeconomic headwinds and expect to deliver a very solid fiscal year underpinned by our continued progress against the key growth drivers of our beer business and our proactive actions to improve the performance of our wine and spirits business. And with that, I'll turn the call over to Garth, who will give you more details on our financial results and outlook. Garth?

Garth Hankinson

Thank you, Bill and good morning, everyone. As usual, my discussion will focus primarily on comparable enterprise results accompanied by business segment details. Let's get started with our enterprise results. For the third quarter of fiscal '25, enterprise net sales were relatively unchanged year-over-year as moderated growth from our beer business was offset by the decline in our wine and spirits business. Enterprise operating income on a reported basis was in line with the prior year and on a comparable basis, declined by 2%, reflecting growth from our beer business and favorability in corporate expense being more than offset by the decline in our wine and spirits business.

Comparable EPS was $3.25 for the quarter and was relatively flat year-over-year as the decline in comparable operating income was offset by favorability in unconsolidated investments from the transition in our Canopy ownership to exchangeable shares and the impact of a more favorable comparable effective tax rate.

Before I get into the segment details, I would like to provide an update on our enterprise guidance for fiscal '25. We now expect enterprise net sales growth of 2% to 5%, comparable operating income growth of 6% to 9% and comparable EPS to be between $13.40 and $13.80. These new enterprise guidance targets reflect changes to the net sales and operating income growth targets for both business segments that Bill referenced earlier as well as a few additional updates that I will cover in more detail shortly.

Now diving into the business segment details for the quarter. Starting with our beer business. Net sales grew by 3%, a $64 million increase, driven by beer shipment volume growth of 1.6%, a price uplift of 2% or $39 million from targeted actions taken during the fall and a 30 basis point headwind from unfavorable mix as consumers continued to shift to value-oriented larger pack size, particularly in cans. Beer depletions grew 3.2%, an acceleration from Q2 but reflected the ongoing consumer dynamics that Bill discussed. Regarding selling days, they were flat in the third quarter. And as a reminder, for the full year, there will be 1 less selling day, which already transpired in Q2.

Our on-premise depletions grew nearly 5% and accounted for over 11% of our total volumes, supported by Modelo Especial and Pacifico as the top 2 dollar share gainers in draft and Corona Extra maintaining its top spot in packaged on-premise. Off-premise depletions grew nearly 3% and accounted for approximately 89% of our total volumes. Within the off-premise channels, independent retailers not captured in Circana data achieved a lower growth rate, mainly driven by convenience and liquor store channels in most of our top 10 markets as well as independent grocers in our top state of California.

Across these key states, unemployment rates for both total and Hispanic consumers remained elevated relative to the national average, which we continue to believe is a fundamental near-term driver for the relatively lower depletion growth rates we have seen in these markets over our last couple of fiscal quarters. However, as Bill noted, while it is uncertain whether consumers in these states and channels will revert to more normalized purchase behaviors in the near term, we do not anticipate these trends to be a structural headwind over the longer term.

On that note, shifting to our full year expectations for top line drivers. While the third quarter beer shipments were outpaced by depletions due to normal seasonality and planned maintenance at our breweries, we continue to expect full year absolute shipment and depletion volumes to be closely aligned. And also from a full year perspective, as Bill noted, we now expect net sales for our beer business to be 4% to 7%, inclusive of 1% to 2% pricing.

Moving to beer operating income and margins. Operating income grew by 2%, and we had a 60 basis point per year – per year-over-year decline in operating margin to 37.9%. The increase in operating income was driven by higher gross profit, partially offset by increased marketing investments. Improvement in gross profit was largely a result of the previously mentioned net sales drivers and a $40 million benefit from ongoing cost savings and efficiency initiatives, partially offset by an absolute COGS increase of nearly 1%, excluding these savings. Marketing expense as a percent of net sales was just over 10%

for the quarter, driven by the incremental marketing actions that Bill discussed. Our full year expectation for marketing expense as a percent of net sales remains approximately 8.5%.

Other SG&A expense was 5% as a percentage of net sales in line with our unchanged full year expectation. From a fiscal '25 full year perspective, in terms of operating income, we now expect our beer business to grow between 9% to 12%, while our operating margin expectation remains unchanged at approximately 39%.

Shifting to our wine and spirits business. Net sales declined just over 14% in the third quarter, largely driven by shipment volume decline of over 16%. The volume decline was largely a result of the ongoing category headwinds in the wine category, particularly in the U.S. wholesale market from weaker consumer demand, as well as continued inventory destocking by retailers. Despite these persistent challenges, we continue to expect improved organic shipment volume growth performance in our wine and spirits business in the fourth quarter as we anticipate more fully realizing the benefits of the pricing, marketing and distributor initiatives we launched at the beginning of this fiscal year, while also benefiting from the historical seasonal trends of the business.

Additionally, retailer inventory destocking has broadly started to stabilize, which we expect will result in additional tailwinds to support demand growth moving forward. As Bill noted, for fiscal '25, we now expect wine and shipments organic net sales to decline 5% to 8%, reflecting persistent volume headwinds in the wine category and excluding $23 million of net sales following the recently closed divestiture of SVEDKA.

Operating income for the wine and spirits business declined by $32 million, resulting in an operating margin of 22.1%. This decline was primarily driven by a decline in overall shipment volumes. Marketing expense for the wine and spirits segment as a percentage of net sales was just over 11% and remained elevated above our medium-term target as increased investments in our largest brands continue, the vast majority of which are for our higher-end brands. Other SG&A as a percentage of net sales was over 14%, consistent with our medium-term targets. In line with the adjustments to our net sales expectations, we are now expecting fiscal '25 operating income for our wine and spirits business to decline 17% to 19%, excluding $10 million of gross profit less marketing of the SVEDKA brands that are no longer part of the business following their divestiture.

Shifting to the balance of the P&L. Corporate expense for the third quarter was $63 million, a 3% decrease driven by lower compensation and benefits, partially offset by higher consulting services and increased depreciation expense as a result of our corporate headquarters relocation. Following this decrease, we have updated our fiscal '25 corporate expense outlook to be $250 million. Interest expense remained flat year-over-year and for the quarter was $104 million. For the full year, given continued favorability from lower average borrowings and adjustments related to capitalized interest, we now expect our fiscal '25 interest expense to be $410 million. Comparable effective tax rate was 16.3% compared to 18% for the corresponding quarter last year and we continue to expect our full year comparable tax rate to be approximately 18.5%.

Wrapping up with free cash flow, which we define as net cash provided by operating activities less capital expenditures. We generated year-to-date free cash flow of $1.6 billion for fiscal '25, a 13% year-over-year increase. This strong cash flow generation has enabled us to reach and maintain a net leverage ratio below our stated target, return over $1.2 billion to shareholders in dividends and share repurchases through November of 2024 and continue to advance our brewery investments in a disciplined and agile manner. As we look to the remainder of fiscal '25, we now expect to deliver annual operating cash flow of $2.9 billion to $3.1 billion and free cash flow of $1.6 billion to $1.8 billion, both above our initial targets and to continue to deploy that cash with a balanced and thoughtful approach to capital allocation.

With regards to our brewery expansions and given our agile modular approach to these projects, we have shifted the completion and planned start-up of our latest addition at our existing breweries in Mexico from the end of fiscal ’25 to fiscal ’26. The timing of our new brewery in Veracruz remains on track with the completion of the initial phase of that facility anticipated by late fiscal ’26 or early fiscal ’27. While the timing adjustment of the existing breweries expansion has shifted some of our beer CapEx, we previously anticipated for fiscal ’25 into fiscal ’26, we continue to expect to deploy approximately $3 billion in CapEx between fiscal ’25 and fiscal ’28.

In closing, we made strong progress against our strategic initiatives this quarter and maintain a solid growth trajectory for the enterprise. We continue to invest behind the momentum of our brands, drive operational efficiencies and maintain cost discipline and provide strong cash generation while still executing against our capital allocation priorities as we have done for the last several years. We will continue to closely monitor the subdued spend and value-seeking trends we have seen develop across our consumer base and the economic drivers influencing that behavior as well as other possible macro shifts, particularly any changes arising from potential tariff policies. As always, we will seek to balance our consumer obsession and our value creation commitment to our stakeholders as we focus on executing against our strategy and stated priorities.

Thank you all for your continued support as we approach the close of fiscal ’25. With that, Bill and I will now be happy to take your questions. Thank you.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question is coming from Dara Mohsenian from Morgan Stanley.

Dara Mohsenian

Bill, just wanted to take a bit of a step back on the drivers behind the softness you're seeing on the beer depletion front. If you had to separate that out between the short-term consumer weakness you focused on with the subdued spend and the value-seeking behavior that you mentioned on the call versus some of the longer-term concerns in terms of health and wellness, whether GLP or demographics, maturation of the beer brands in your portfolio, cannabis, et cetera, what are your sort of thoughts on if you're seeing any pressure from some of those more enduring longer-term points versus the short-term dynamics that you mentioned? And just putting it all together, how might that impact the way you think about long-term beer revenue growth guidance?

William Newlands

Sure. Our view of this is that the length of the near-term moves has been a little longer than what we had anticipated but we still don't see it as anything structural. We don't see it as long-term issues attached to this business. We've seen higher uptick in unemployment, 31 – even though the overall unemployment rate was pretty consistent, 31 states were actually saw an increase in unemployment and that always effects. You may have also seen, there was an interesting Wall Street Journal article 1 week or so ago that showed the breakout of consumers' spending for those making $50,000 a year and less and that's a portion of our business. The key thing that I think is important as you look at this, is one of the things I noted in my remarks, which is that alcohols percent of the consumer basket remains consistent. The overall basket is down but our percentage of that basket remains the same. And I think that's an important thing. We would expect to come out of this trough and we certainly hope that that's going to happen in the nearer term.

Operator

Next question is coming Kaumil Gajrawala from Jefferies.

Kaumil Gajrawala

I think maybe just to talk a bit on capital allocation. How do you maybe think about the right amount of CapEx that you're deploying into new capacity given that we've got this slowdown. And if it's macro, we don't really know how long it will be, maybe delaying Veracruz or pushing out some of this CapEx. And then also, when you think about the returns on those investments and maybe the risk to the returns on those investments, how do you think about that capital deployment versus just buying back a much larger amount of shares?

William Newlands

Yes. I think a couple of things. I'll start and see if Garth wants to add anything into that. One of the things we've said consistently is that all of our expansions at this point are modular, which gives us the opportunity to advance them or delay them depending on any particular effects that we see in the marketplace. I think Garth has been really clear that our capital allocation priorities have been very consistently driven over the last several years. You've noted that we continue to buy a significant amount of shares in this quarter, $220 million. We still have $1.9 billion in authorization to buy back shares from our Board of Directors. So I think it's pretty clear what our focus of attention is and you would expect that, that's going to continue. Garth, anything you want to add to that?

Garth Hankinson

No. I mean, just a couple of minor things, I guess, Kaumil. I mean and then as Bill stated, our approach has been and continues to be very agile, very modular. I mean, in my remarks, we outlined the fact that we're pushing off some of the – bringing online some capacity from this year into next year. So again, that's just an example of the things that we have done and we will continue to do. As Bill noted, we still have the $1.9 billion worth of authorization under our existing share repurchase program. And one of the things we've talked about in the past is this cash flow inflection that we have here over the next couple of years and we're excited to what that means. And we will use a very disciplined approach as we think about deploying that next dollar and where that goes.

I think one of the things that's worth pointing out, as Bill stated, we've been committed to our capital allocation priorities. We're nearing the end of our large commitments as it relates to brewery expansion in Mexico. As we stated in our prepared remarks, we've now been 2 quarters at or below our targeted leverage ratio and we've deemphasized M&A. And so as we look forward, I would say that the approach to capital deployment and with a bias towards returning capital to shareholders is likely going to continue.

Operator

Next question today is coming from Bonnie Herzog from Goldman Sachs.

Bonnie Herzog

All right. I actually had, I guess, a couple of questions on your updated guidance. First, while you lowered your full year beer net sales growth guidance, which makes sense, you actually widened the range and there are only 2 months left in the year. And I certainly understand there's a lot of uncertainty but just curious why you might not have better visibility on your shipments, especially thinking about the upcoming spring reset. Then second, what will be the key drivers that will put you at the bottom end of this range maybe versus the top end? I guess, Bill, based on all your comments, I assume if unemployment for your core demographic weakens, this will certainly put you at the bottom end. But have you factored in the impact from the awful California fires?

William Newlands

Sure. What – as you would expect, when we decided on this particular range, this range reflects risks that we see that could potentially occur that would include things like unemployment, potential tariffs, things of that nature. And the opportunity is just the opposite of that. The upper end reflects if things improve and we start to see some of these macroeconomic headwinds go the other direction, then you could see improvement in a wider range. It's – I think the best way to think about it is, there's been a lot of volatility. It's been very volatile compared to historical trends. And we thought it was prudent given everything that we can see at this point in time to broaden the range a bit.

Relative to the fires, it would be very fair to say that our thoughts are with everyone affected by these fires in Los Angeles. Our focus remains on ensuring the safety of our people. And beyond that, we're in the process of making donations to support both the victims and the efforts of those on the ground. Certainly, the end of that is not clear at this point. But certainly, that had already begun. And I think our – you should view that our guidance reflects that particular unfortunate situation as well.

Operator
Next question is coming from Lauren Lieberman from Barclays.

Lauren Lieberman
So just shifting to wine and spirits. I mean, I think it's fair to say we're kind of in negative – this ongoing negative revision cycle for that business. So I just – you called out some of the positives. Maybe you could share a little bit more on like what hasn't gone according to plan? What in the turnaround plan might need tweaks because the hole kind of keeps getting deeper and it doesn't seem like there's many signs, at least from the external standpoint of stabilization.

William Newlands
Sure. Well, as we said at the beginning of the year, it was going to take us 9 to 12 months and that's about what we're heading into at this point. I think you saw some firm shoots in Q3. Meiomi and Kim Crawford were up 7%. Our craft and depletions, our craft spirits portfolio was up 9%. We continue to be hit very hard at the lower end of the business. The lower end of the business is not healthy. But I think the move that we made relative

to SVEDKA is an important example of where we continue to be focusing our business toward the higher end, where we believe there's better growth potential and better margin and profit potential than the lower end of the business. That process is continuing. And we remain optimistic that we're going to continue to see some of these critical brands, those top 10 brands that we're focusing our attention on, continue to see improvement, as you saw with Meiomi and Kim Crawford as an example.

Operator

Next question today is coming from Bryan Spillane from Bank of America.

Bryan Spillane

I guess my question is more about just the beer category in general and if I'm looking at the numbers right, we're going to ship in calendar '24 close to what we shipped in 1990, right? Like the category is definitely sick. So I guess 2 questions related to that, or 3. One, do you agree with that? Two, why – what will turn it? Seltzers seem to give it a little bit of a pop and that's faded. Just so what do you think from a category perspective is needed to turn that? And then the third is just – can you remind us what level of volume growth in the U.S. beer category in total underpins your medium-term sales targets?

William Newlands

Sure. So obviously, the beer category hasn't been particularly healthy, as you point out. I think the differentiating points that need to be reflected relative to our business, is that we have consistently outperformed that category. Modelo, we continue to believe has a lot of runway for growth. It's awareness, household penetration and so on remain tremendous opportunities. And as you saw from the distribution perspective, we're already halfway plus to the distribution growth that we had presented at Investor Day. So I think all that's positive. You then add on the growth potential that you see on brands like Pacifico and Victoria, frankly, they both have seen strong double-digit growth profiles for those businesses.

The demographic profile of those business is slightly different. So those present some good opportunities. And then you look at things like Corona Sunbrew or Corona Non-Alcoholic, which again, put us into slightly different opportunities and situations than what we have been in before. Keeping in mind, when you sum all that up, Bryan, we continue to grow ahead of CPG and have for over 1 decade. so certainly, while there have been some challenges in the overall category, we have consistently outperformed not only the category but the CPG sector for literally over 1 decade and we continue to expect to be able to do so going forward.

Operator

Next question is coming from Rob Ottenstein from Evercore.

Robert Ottenstein

Great. Just 2 short follow-ups. One, can you just give us a sense of what – and this is both on the beer side, what your internal inventories are for beer and your distributors maybe benchmarking versus kind of normal levels of this time of year? And then the second, what are your expectations in calendar 2025 for shelf space gains for the year compared to prior years? And any kind of percentage would be great.

William Newlands

Sure. Inventories are fairly consistent with what we've had historically. We – just in case there are any order disruptions, as you would expect, we have a bit more on this side of the border than we have had historically and we'll probably continue to do so until we understand exactly how that all lands but that's just good business. Really, it has no impact on the ongoing inventory levels. We would expect, given the outsized double-digit gains that we had in shelf positions this past calendar year, that this year would – coming would probably refer to a more normal year, where we have consistently outperformed and gained shelf presence, primarily because we've outperformed the category, both at the high end and in the overall beer category collectively. So while we haven't put an exact percentage on that at this point, Robert, we would expect to continue to gain shelf because, frankly, we've earned it.

Operator

Next question is coming from Andrea Teixeira from JPMorgan.

Andrea Teixeira

I have a follow-up question on the volume. And also the real question is more how to think about the tariff risk? I understand, obviously, you're lobbying with some of the raw materials that you buy from the farmers in the U.S. But based on your long-term algorithm, if a tariff were to be implemented, would you prioritize volumes? In other words, take less pricing given the elasticity? Or would you say that 39% to 40% is our operating margin goal and that's going to be a hit for the beginning but you want to stand behind it.

And then from a follow-up perspective, I was just like, the range for volumes, I know Bonnie tried to ask that question, the range for volumes were very wide, given that you only have about 45 days left, it was like between minus 5% and plus 9%, if my math is correct. So I understand the puts and takes and the lack of visibility. But really, what would take you to the minus 5% given that you're still seeing volume growth from our understanding in the track channel.

William Newlands

Sure. Well, let's start with a minor correction on the last point, which is beer volume growth projection was 4% to 7%. It was not negative. It's 4% to 7% plus. So, just so we're clear on that particular point. Relative to the tariff — ***indiscernible*** —

Andrea Teixeira

For this quarter – sorry, just for the quarter, I believe it's a really wide range for the quarter itself, for the fourth quarter.

William Newlands

So continuing to answer your question, relative to the tariff scenario, we have a number of what ifs, as you would expect and it's really too early to hypothesize about what might or might not happen. As you would expect, we have a lot of permutations that we have considered and certainly we'll adjust our approach depending on what terms – what plays out as we go forward.

Garth Hankinson

And Andrea, I'll just follow up quickly on your question regarding Q4, right? So as Bill alluded to in his prior answer to Bonnie's question is, we acknowledge that the range right now is a little bit wider than we typically are given where we are in the calendar year. But this really is to acknowledge that there's potential for continued risk on the lower end, given macroeconomic conditions and whether or not they improve, stay where they are or get worse but also opportunity on the upper end as well. As we think about those macroeconomic risks potentially, obviously, as we've been talking about in this call, we're most concerned around unemployment but there are others as well. Fortunately, the print today from – on unemployment seem positive. So hopefully, that continues and is a tailwind for us as we go through Q4.

Operator

Next question is coming from Filippo Falorni from Citi.

Filippo Falorni

I wanted to ask on beer margins. Obviously, this quarter, they were down year-over-year but given the increase in advertising that you called out, as you look a little bit ahead in terms of the beer margin opportunity, can you talk a little bit about the opportunities from pricing, commodities and also some of the FX consideration given the pace of weakness in recent months?

Garth Hankinson

Yes. I mean as it relates to beer margins. Look, I mean, the way we feel about beer margins really hasn't changed over the last several years. We think that the right way to think about our beer margin profile is in that 39% to 40% range. In any given year, we're going to have the tailwinds of incremental volume, more throughput through our footprint, obviously, very aggressive cost savings initiatives that we have every year as well as the pricing actions we take. Offsetting those in any given year will be normal inflationary impacts. Obviously, as we build out our portfolio and our production footprint, we have more, the depreciation that comes on.

And then obviously, there can be drags as it relates to fixed overhead absorption as you're growing into that capacity. So all up, all in, we continue to think that 39% to 40% is the right range for our beer margin, acknowledging that in any given year, we might have more headwinds and we could fall below 39% like we did in '23 and '24, where we had outsized inflation. But there could be years where we have more tailwinds like we did in '22, and we can deliver above 40%. So those are the puts and takes and that's why we think 39% to 40% is the right range.

Operator

Next question is coming from Robert Moskow from TD Cowen.

Robert Moskow

I think you said that price competitiveness has started to dial up on the light beer segment. And I wanted to know like – I didn't hear if you have a response to that. Do you intend to promote more aggressively? And just in general, if the volumes are weak overall in the industry, can the industry still get pricing like it normally does? Or is there a risk that some of it needs to be discounted back more than normal?

William Newlands

We're assessing that – the question of the light beer sector as we speak, as you would expect. 1% to 2%, as you know, we do it on a by SKU by market basis. So therefore, I think the answer remains yes. Those opportunities continue to present themselves but they do them selectively. It's not a broad market across the board change. It's looking specifically at markets, looking at velocities and growth profiles in particular markets and understand where those opportunities present themselves. It also applies to pack sizes. You might be able to do something in single serves versus larger pack sizes or vice versa. So we believe 1% to 2%, which we've done very consistently over time, remains the right answer, given big swings is a negative. And that's what we've tried to avoid. In fact, as you know, we avoided that during COVID. We were much more consistent on our 1% to 2% algorithm and we think that's more consumer-friendly than the opposite.

Operator

Your next question is coming from Peter Grom from UBS.

Peter Grom

I was just hoping to ask on beer guidance for the fourth quarter but just maybe a couple of modeling considerations. Maybe just to start, shipments versus depletions, Garth, I think you mentioned that you still expect them to be closely aligned on a full year basis. So I just want to make sure I heard that right, which would mean you would expect shipments to be a bit below depletions in the fourth quarter. And then just relative to the tracked data, you kind of saw a return to the low single-digit gap this quarter. You touched on the weakness in the nontracked channels that might be driving that. So is this gap something we should expect as we move forward here?

Garth Hankinson

Yes. So just on shipments and the depletions. On a full year basis, we expect shipments and depletions to be largely aligned. That – you heard that correctly. As it relates to the gap between Circana and our depletions, look, I'll tell you what we say sort of every time we have this call, which is, we don't use the Circana data to track our depletions. Obviously, we know that that's the data point that you have to use but there are certainly limitations to Circana. Certainly, it only captures about 50% of our sales activity. And so that's something that you have to take into account. And there's been a lot of volatility, obviously, over the course of the last several years regarding that gap and how wide it has gotten. And for those questions as to what drives that gap, those are best suited for Circana and not necessarily answered by us.

Operator

Next question is coming from Steve Powers from Deutsche Bank.

Stephen Robert Powers

I wanted to go back to the discussion on CapEx that Kaumil had begun earlier in the call. In your answer there, you highlighted the modular nature of ongoing expansions and I guess, therefore, the – effectively the discretion you have over CapEx. And I think that's intuitive with respect to expansions in Northern Mexico. But I guess my impression of Veracruz commitments is that they're a bit more fixed. So could you talk about whether that is correct or not? And then maybe more generally, just how much of the beer CapEx you've outlined from here, how much of that would you frame is like truly discretionary through fiscal '28?

William Newlands

So let me answer the first part of that. Yes, we are expecting to open Veracruz, as Garth noted, in roughly 18 months, a little less, which is right on schedule with what we had anticipated. That has all been mapped into what our anticipated supply requirements are. My point about modular was, if we need to add more going forward at Veracruz or at Obregon, as an example, we might – we can speed up or slow down additional capacity expansions as need be, going forward. I think that's the beauty of where we are today versus at a time several years ago, where frankly, we were just trying to keep up with demand. We're in a much better position today that allows us to move forward with capital expenditures against building out our facilities in conjunction with what we see the business delivering.

Garth Hankinson

I think the only thing I'd add to that, Bill, is just as you think about Veracruz and the fact that it will come online in the time frame in which we were previously discussing, it's important to note that the first module that comes online at Veracruz is only 3 million hectoliters. So it's a relatively small piece of the overall production footprint.

Operator

We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Bill for any further closing comments.

William Newlands

Great. Thank you, operator, and thank you all for joining today's call. In closing, while in the third quarter, we continued to manage a softer consumer backdrop due to macroeconomic headwinds, the growth of our beer business still outperformed that of the total beverage industry. And as a company, we also outpaced the total CPG sector, both on a dollar sales basis. Furthermore, we also continued to consistently deliver against our capital allocation priorities, including returning another $220 million to shareholders in buybacks in Q3, which brings our total year-to-date cash returns through share repurchases to approximately $670 million.

Looking ahead, we have prudently lowered our growth outlook for fiscal '25 given the near-term uncertainty on when consumers will revert to more normalized spending. However, we continue to expect another solid year with our revised comparable EPS range still delivering double-digit growth from the midpoint and above, underpinned by our continued progress against the key growth drivers of our beer business and our proactive actions to improve the performance in wine and spirits. And with that, we wish you all happy New Year and thank you again for joining the call.

Operator

Thank you. That does conclude today's conference call and webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.