Goldman Sachs Global Staples Forum
2025-05-13

Presentation

Bonnie Herzog

Okay. Hi, everyone, and thank you for joining us today. I'm very delighted to welcome Constellation's CFO, Garth Hankinson; and EVP and President of their beer division, Jim Sabia.

While the beer industry is currently experiencing a slowdown and the environment has been challenging, Constellation is expected to continue to grow faster than the industry given its strong portfolio of leading brands, most notably Modelo Especial. And so I'm excited to kind of get into some more topics with these 2 gentlemen today. So thank you both for joining us. A lot going on, a lot to unpack.

Question and Answer

Bonnie Herzog

So I wanted to maybe start things with your outlook. You recently made a pretty large revision to your growth outlook for your beer business and noted it was really driven by nonstructural factors, which is tied to the macro and then the Hispanic consumer behavior. So I guess in the context of that, what gives you the confidence that structural issues like I'm thinking about consumer shift toward the health and wellness, moderation, substitutes like cannabis maybe aren't behind the slowdown. Okay. I'll throw in GLP-1 too.

Garth Hankinson

So I'll start and then Jim can weigh in. And as you noted, we did reduce our outlook, and we did say that we think it's more transitory, if you will, in nature than it is structural. Broad picture-wise, the reason we feel that way is that we feel really good about the health of our brands, and we feel good about us controlling the controllable, so to speak, and Jim will get into more detail on that in a minute. But if we think about the nonstructural piece of this, it really comes down to a couple of points, and you hit them already. One is just the macroeconomic backdrop.

As we move through our fiscal FY '25, obviously, we saw some increases in unemployment, particularly with the Hispanic consumer, but more broadly, inflation continue to be a concern. And while those things kind of stabilized in the last half of calendar year '24, they then got replaced with some other macro headwinds, if you will, things like year-over-year real disposable income growth in January being at a 2-year low and then in February being the second lowest in 2 years. Private housing starts were weak to end the year and also weak to start the year. And then even GDP growth, if you look at what the expectation is now versus where we were at the beginning of this calendar year, that's moderated some. And so the macroeconomic backdrop, broadly speaking, just has not provided the tailwinds that we maybe thought it was going to 6 or 9 months ago.

Then if you transition into the Hispanic consumer, as we announced on our last earnings call, we've commissioned an omnibus study that pulls Hispanic consumers to get a sense for their overall perception, if you will, of where they are and how they're feeling about the economy. From this survey, there's real concerns in that community right now. We know that they think that there's a lot of uncertainty. Well over half of the cohort has concerns about the sociopolitical backdrop and the uncertainty in today's environment. And as a result, we know that they're tightening their belt a little bit as it relates to spend across the entire sort of grocery basket, so to speak.

We also know that a vast majority of them are going out to the on-premise retail or restaurants and bars less frequently. And they're also getting together at home with friends and family less frequently. And both of those are big consumption occasions for the Hispanic consumer. So that belt tightening and that change in behavior has obviously has had an impact on beer consumption as well. So those are the 2 biggest drivers that we're facing right now, the macroeconomic backdrop and then the Hispanic consumer. You referenced some other things that we don't feel is impacting our business materially currently. One, just in terms of the younger age cohort, for newly minted legal drinking age consumers, the growth that we achieved from that cohort is about 2x that of the total beer category. So we feel good about the inroads we're making there.

As it relates to GLP-1 drugs, for those consumers that have been on GLP-1 drugs for 6 months or more, the impact to beverage alcohol is significantly less than it is for other beverages, whether that's carbonated soft drinks, energy, juices, it's more akin to the impact felt by water. Furthermore, consumers typically stay on GLP-1 drugs for about 3 months. And once they go off GLP-1s, beer consumption kind of goes back to the levels it was pre-going on them. And then something like cannabis. We look at cannabis. And in those states where legalization has been in place the longest, a state like Colorado, we continue to perform well. So we don't think that, that's a material headwind.

Now that being said, I mean, we don't have our head in the sand. I mean we're going to continue to monitor for structural changes, including in those categories. But again, we feel good about the health of the brands and the actions we're taking. We really just need the macroeconomic environment to turn for us. And Jim can talk some more about the brands.

James Sabia

Yes. So as Garth articulated, the headwinds with this consumer, right? So as you know, Bonnie, we've grown 59 consecutive quarters up until fiscal '25, Q4, right? So our brands have been very, very healthy, almost 15 years of constant growth. So as we got into fiscal '25, Q4, we started looking at all of our brand health metrics. And we're fortunate, all of our metrics are healthy. Our brands are healthy. Consumers prefer our brands. And we have a very loyal consumer with our brands, especially the Hispanic consumer.

We have about 35% of our volume is Hispanic and then of Modelo Especial, like 50% of our volume is Hispanic. So as you think about that consumer, we track ZIP codes that are heavy Hispanic ZIP codes. I've been at a retail a lot recently going out to California, going to some of these accounts that are 100% like Northgates and Fiestas where 2 years ago at 1:00, it was packed. This year at 1:00, very few people. So there is a fear of the ICE raids, there is a fear out there. So these consumers are changing their behavior. That's in the off-premise trade.

In the on-premise trade, they're cutting back on social events. They're cutting back on restaurants. This has been going on a couple of months now. We're starting to see it get better. Even the day laborer is we're starting to see come out more. So we're confident that this is nonstructural, and our brands are healthy, consumers love our brands, and we're going to continue to do what we control. And a lot of that is the shelf spaces we've picked up, picked up high single digits in the spring resets. We're introducing more SKUs going forward. We're taking a national approach to SKUs, but also a local approach by BU. So we're continuing to do what we're doing. We're spending.

We're spending marketing. We're not taking down marketing. Actually, we spent more money in marketing last year. So we're going to continue to do what we've done that has made us successful for the last 15 years. And when this consumer comes out and which I think they will, the Hispanic consumer, but also the general market consumer, we're going to be positioned in a really good spot.

Bonnie Herzog

Okay. And speaking of that, if you think about the improvements, and I don't know when you might be expecting some of those improvements for the nonstructural items, maybe when? And then in the context of that, do you expect your beer business will ultimately return to the high single-digit net sales growth that you've been able to put up for so many years? Or is that just given the base has become so large, is that just unrealistic?

James Sabia

Well, I'll let Garth talk about the future fiscal '26, '28 mark, where we're going to go in terms of revenue. But the base has gotten large. Agree. Totally agree, our base has gotten large, where we, in 2010, we had like a 6% share, and now we have like a 19% share. However, if you think about our share, you think about convenience store, which has 5 or 6 stores, beer is usually 94% of beer sold cold. We have about a 24% share of dollars. However, in grocery, we have a 14%. So there's a 9-point spread from convenience to grocery. That's the opportunity for us.

You go to some of these markets and grocery stores have an assortment with a lot of craft and specialty and a lot of other brands, where we're starting to gain some traction, not just with Corona and Modelo, but now we're starting to see Pacifico, Victoria, Familiar, Sunbrew. So we don't think it's the size of our portfolio and the volume. We just think this consumer needs to get healthy again.

Garth Hankinson

Yes. In terms of expectations going forward, I mean, I think that this is one of the changes, if you will, from where we were maybe 9 months ago, where we were – we were looking at our own internal analysis, but also augmenting that with our external partners, banking partners and things of that nature. And at that time, we were forecasting an improvement in unemployment. We were forecasting a more meaningful improvement in inflation. And I think everybody was expecting more movement on things like interest rates. But where we're at now is we've taken a step back and we've said, hey, look, again, working with our own internal analysis and working with those external partners, we're not really

– over this forecast period, aren't forecasting a big change.

I mean if we look at FY '25, for instance, as we came out of – or I should say, calendar year '25, coming out of calendar year '24, this now feels like a year where we're going to see some stabilization in inflation and in unemployment. But again, GDP growth is expected to be a bit softer than even where we were a few years ago or a few months ago. And then in calendar year '26, that's where we start to see maybe we'll see some modest improvement in inflation and unemployment and probably some stability in GDP growth. But again, we're just not in a position where we feel comfortable forecasting a change, and that's why we've only given guidance out to FY '28. We're not really prepared to provide guidance beyond that at this point. But I'll also say there's no downside in our guidance either. Like we're not expecting a recession either. So we just feel like this is the most prudent way to forecast over this time horizon as we sit here today.

Bonnie Herzog

Okay. Maybe focusing more on the near term. You mentioned you reported volume declines this most recent quarter for the first time, what would you say 59% quarter…

James Sabia

Consecutive quarter.

Bonnie Herzog

Consecutive. Okay. So obviously, much weaker than we've seen in the past. And your top line guidance for FY '26 implies flat to low single-digit volume growth. So how should we think about quarterly volume growth, especially as I think about this Q1, given the tough comp from the year ago period? And then maybe you could touch on, have you seen shipment volume trends improve in March and April and maybe so far in May?

James Sabia

Yes. I mean I think looking – we don't give quarterly numbers, monthly numbers, kind of numbers, right? If you think about fiscal '26 – fiscal '25 Q1, we grew 6.4% right? So that's where we're cycling. Get into the rest of the year, it's not – we don't cycle as much. As you know, the category coming into the summer, we did not have a good – the category did not have a good balance of the year last year in 2025, right? But we did in Q1, right?

So we're thinking about what do we control, right? What do we control? And the opportunity we have, like I talked about, is the shelf space, is packages, right? We have national SKUs on convenience and grocery, right? On convenience, you get like 3, maybe 3.5, grocery, you get 5. Because we've gone from a builder, we used to build breweries, right? We had to build the breweries to meet demand now to an operator, we're allowed to introduce more SKUs that don't really slow down the manufacturing. And that's a big unlock for us because as you think about all of these markets are created equal in terms of the brand development index, like California is very different than Chicago, Texas, Florida, New York.

So now we have our 3 convenience store SKUs or so, 5 grocery stores or so. But now we're talking to each of the geographic BUs saying, what do you need? And California, right, needs SKUs that are different than what maybe New York or Florida or Texas needs. So going forward, one of the things we're doing is we're going to offer up more SKUs. And we still only have like 160 SKUs compared to our competitors that have over 1,000. So we're going to do more of that going forward. And we're going to look at price pack architecture. And we're starting to see one of the SKUs that is doing very, very well for us is what we call the 32-ounce bottle. And the benefits of 3-ounce bottle for us is that usually, it's $4.49 or $4.99 per package. That's a great price point for the consumer that's under a little bit distress because of the economy.

We're looking at 8-ounce cans, looking at 7-ounce bottles, doing more with that. So we're going to take a holistic approach national level and then by a regional level, and we're not going to wait until fiscal '27. We're actually going to kick some of this off in September of fiscal '26. So we're just going to continue doing what we're doing. We have a very tight portfolio. We're still spending money. We're still – our marketing is still – we're going to be at 8.5, 8.6 going forward, right? We did spend more in Q3 of fiscal '25. We're getting back to the normal cadence of Q1, Q2 of this year because it's March, April, May, June, July, August, summer selling season, Cinco De Mayo. So we'll get back into that cadence of marketing.

Bonnie Herzog

Okay. Speaking of Cinco De Mayo since it was just last week, curious, how…

James Sabia

It was mismatched if you saw the kind of data, right, Sunday versus the Monday. Like I was at retail. I went to probably 100 stores last 2 weeks. We look great. And we really – I mean, I've been doing this for about 17 years now, and we look – it's better than we ever have just in terms of the shelf position we have, the incremental SKUs, what's on the floor, the merchandising, the advertising. So we have above the line, which is all the media, then we have below the line, which is all the retail tactics. So we feel good. We just need the consumer to feel better.

Bonnie Herzog

So the retailers bought it in…

James Sabia

Totally.

Bonnie Herzog

Okay. And you mentioned, I think, earlier that this spring, shelf space gains, you said high single digits.

James Sabia

High single digits.

Bonnie Herzog

And that's on top of, I Remember 10, it as a 10 or 12?

James Sabia

10.

Bonnie Herzog

So that's encouraging. Consistent with what we're hearing as well.

James Sabia

Yes. And what we're seeing, like, for example, we have Corona, we have Modelo. Pacifico is starting to really gain some traction with incremental space. But in our highly developed markets like the California, the Nevadas, the Texas, some of the Texas markets, we're starting to see Familiar and Victoria gain more shelf. So now you have the Blue with Modelo, you have Corona Extra, you have Pacifico, and now you're starting to see blocking of Familiar, Victoria and then our new brand, Sunbrew. So we feel good. We really do feel good about where we are.

Bonnie Herzog

And then switching to depletions. How have your beer depletions been tracking since the beginning of this fiscal year? And then how should we think about the relationship between depletions and volume growth that we're seeing in lovely scanner data given the recent volatility in the relationship of those 2 data points?

James Sabia

With our expectations we thought they would be, right? And then with scanner data, you got to be careful with scanner data, right? Because it's about 50% of our mix and a lot is going on, right, in terms of even the amount of stores they survey. So you have to be just careful looking at [scanner] every week and saying, okay, where is the volume going to be? Like I said, the other 50% is independents and on-premise and all of the above.

Bonnie Herzog

Okay. So any change into that gap with scanner data and the depletion…

James Sabia

It fluctuates back and forth, but it's been pretty consistent for many, many years.

Bonnie Herzog

Switching to margins. Key question I've been getting is, if I think about your lower growth algo, in your outlook this year, you still expect to maintain your best-in-class operating margins. So love to hear more details on how you expect to deliver on that given I'm thinking about deleverage from lower volume growth. You've got the reduced offset to incremental depreciation from the ongoing brewery capacity expansions. And then this is on top of the additional headwinds you're facing from tariffs.

Garth Hankinson

Yes, Bonnie. So I'll start and Jim can weigh in. But in many respects, the answer is a little bit boring because I think it's kind of consistent with what we've talked about in the past. I mean, as you referenced, 39% to 40% operating margins are best-in-class. And we've been able to achieve those in spite of year-over-year headwinds because of the tailwinds that we control. And so first of all, tailwinds that we'll continue to benefit from will be some volume growth. The expectation will be some volume growth as well as the 1% to 2% pricing impacts that we feel good about the ability to drive that kind of pricing even in the current environment because of the very methodical and disciplined approach that we take.

We've always had a robust set of efficiency gains and cost containment initiatives in place. We've talked a lot about that in the last couple of years just because we've been able to successfully claw back a lot of the outsized inflationary gains we saw. But outside of that, we always have a robust set of projects in place to help us manage through the inflationary pressures. And you heard Jim earlier reference this whole mindset shift from being a builder to an operator. That will continue to serve us well as we go forward as we manage efficiencies and manage costs. So those will be the tailwinds. I mean headwinds will continue to be inflation continue to be growing into the capacity that we're building, so the fixed overhead drag inclusive of depreciation.

And then again, we mentioned tariffs this year. But we think we can manage those headwinds effectively through the – managing those things that will be tailwinds for us. And you mentioned the depreciation impact with lower volume. I mean, I think that this is, again, a testament to how we're managing the business now. We've talked about this modular approach to adding capacity. So we've been able to sort of delay, if you will, turning on capacity to more meet the near-term demand. And so that's provided to be not quite the headwind that we would have otherwise would have had. And then you mentioned tariffs a little bit. Fortunately, we're USMCA compliant. And so currently, the only impact we have is on the aluminum content of our cans, and that's included in our most recent guidance, and we think that we can manage through that.

Bonnie Herzog

Okay. Moving on to marketing. You touched on this. And I think about it as a driver of beer margin, to some extent, you made incremental marketing investments in Q3 and Q4 of FY '25. And this is again in your beer portfolio. But those, as you touched on, were challenging quarters. And now you're expecting marketing relative to sales for the next, I guess, 3 fiscal years to be below both of those quarters and also lower than FY '25 as a whole. So how much of this is due to sort of efficiencies you're getting within the marketing? Or – and then ultimately, what is the right level of marketing spend for your business, do you think?

James Sabia

Yes. To your point, Bonnie, we did invest in our fiscal '25 in Q3 and Q4 incrementally with college football, NFL. We feel very, very good about our marketing, right, and what percentage we are. We do a lot of modeling. We have marketing mix modeling. We know what medium tool, what's the ROI, what's the marginal ROI by vehicle, by brand. And we've been doing this for many, many years. So we have a good handle on the amount of money we need to drive top line, right?

So we continue to look at efficiencies. We hired a new media agency using more – it's really interesting in the space, I'm sure you know the media space, there's efficiency in digital and social media can be extremely efficient, but you're talking to a smaller set of cohorts, and there is effectiveness. And that becomes the college football, the NFL where you have big, big media and you can sell more cases, but it's not as efficient. So this agency has helped us figure out what is the mix between kind of the old linear TV versus social versus digital. But we've always said, Garth and Bill always support, we need more money to go back because we feel like, look, the ROIs are good, and if we spend X, return is going to be Y. And you get residual value. I think that's been part of our success especially with a brand like Modelo Especial, that we only started advertising on general market TV advertising 8 years ago. And what happens is year 1, you get 100%, year 2, you get 66%, year 3, you get 33%. And then you get that flywheel going. And we're like if you think about the media spend, Modelo Especial has the #1 share of voice and #2 is Corona Extra in terms of share of voice.

So we're investing back in the brands, and we feel like if 8.5%, 8.6% isn't enough, we go back to Goth and Bill, we show them the business case, and we continue to invest because we need top line. Top line growth is so critical for so many reasons, and that's our strategy. We will continue to keep our brand health, continue to invest. And we have a very tight portfolio, right? We have brands that Modelo and Corona are over 80% of our volume. So we don't have a long tail where we need to invest money all over the place. But those 2 brands and the size of those brands, they're very, very efficient as we spend in...

Garth Hankinson

And just to add very briefly to that. I mean, I think because we do get this question a lot from investors and from analysts, right? As Jim just said, we want to grow the top line. We think that that's the #1 priority. We're not going to sacrifice top line growth for bottom line margin. So said differently, we don't use marketing as kind of like what's the back solve, so to speak, to generate the 39% to 40% marketing.

I think, as Jim said, we debate this a lot as a management team to what's the right amount of marketing. And I think to the management team's credit, when Jim and team come to us and say, "Hey, we think we've got a really good return-generating opportunity here, we fund that. And conversely, his team has great discipline, and they won't suggest or commit to something that isn't – it doesn't drive a lot of return. They won't spend for the sake of spending.

Bonnie Herzog

All right. That's helpful. Let's shift to your core beer brands. Now Modelo Especial hasn't been immune to the recent slowdown in growth in the industry. And then just more recently, [Mich Ultra] really seems to have become a challenger for the top share gainer spot. So how are you thinking about the remaining growth opportunity for Especial?

And what is your strategy for the brand given the challenging consumer and competitive backdrop?

James Sabia

So as you think about Modelo Especial, in Los Angeles, we have a 22%, 23% share, right? So that brand is very healthy, a lot of shelf space, right? We're looking for the rest of the portfolio to get growth out of a state like California. Still growing with Modelo on 7-ounce and some other SKUs. On-premise is a huge opportunity for Modelo Especial. I mean draft handles are so incredibly important. We're the fourth largest draft handle in the country. So there's so much room there. But as you move east, coming from California with Modelo Especial and as you go into Chicago and Texas and New York and New Jersey and Florida, Modelo Especial still has so much runway in terms of distribution.

Now if you get into the Midwest, we call it like the big 10 SEC states. The velocity per point of distribution isn't as high naturally as, say, a Dallas or Houston or Los Angeles, right, because of the demographics that are there. But we still have so much runway for simple and effective distribution in the Midwest. So we're very – one of the things that I think benefits us dramatically with Modelo Especial is when we came out with this campaign of the fighting spirit almost 7 years ago, we've been very, very consistent. So what happens is that you build so much equity up when you run the ads, whether it's the music or the voice over, the minute the consumer hears that song or hears that voice over, they know it's Modelo Especial.

So the fact that we've maintained the campaign, the positioning of the brand with the fighting spirit. Now the campaign will evolve with different scenarios and different scenes, but it's been really, really effective to gain the share of mind with the consumers. And the emotional connection, especially with the Hispanic consumers that they have for Modelo Especial. So we feel good about the growth of Modelo Especial. We feel like it's got runway to go, more price pack architecture. Draft, like I said, is critical. You walk into a bar and we know the first thing consumers do they look at the handles. If you don't have a handle, right? It's like, okay, it has to be really, really top of mind, they have to look for it down there. So there's so much opportunity for this brand still as we move from West to East that we're going to compete, right? And we're going to continue to do what we're doing.

Bonnie Herzog

Okay. As much as that's a focus, I want to ask about Corona Extra, which is back to, I guess, low single-digit declines. So do you have a plan to return that brand to growth? And is returning it to growth sort of a requirement to hit your guidance this year? Is that – like what's implied in your top line guidance?

James Sabia

The goal is to return it to growth, but it's not mandatory to hit our guidance without it, right? So you think about Corona Extra, it's been the #1 endpoint since 1999, right? And I'll go back to California. I'll start in the East. Corona Extra is still the #1 beer brand in New York City, #1 beer brand, right, by volume. It's #1 beer brand in Miami, right? So it still has its pockets of New York, Miami, very largest beer brand. Now you go out to California, where you have the growth of Modelo, but you also have the growth of Pacifico, right? So you have the cannibalization. Yes, we do source from our own volume, as you would think, right?

So the volume that Pacifico is sourcing from Corona in California is probably 30%, right? So besides – so you get the cannibalization. And as Pacifico gets a little bit bigger, right? It's sourcing some from Corona. However, so you have cannibalization, then you have your 1 to 2 pricing, which is a drag. So those are the drags, but what are the drivers? The drivers are getting back to the essence of the brand and the marketing team did a great job of getting back to the beach, getting back to the essence of the brand. And then as we think about it, what are the DMAs that we have to win in and do we take more of a regional approach, always do some national overlays, but take a more tactical regional approach. And then what do we do with price pack architecture? Are there opportunities with 7-ounce, 12-pack, 8-ounce cans. So there's a lot we can do with Corona Extra, but making our plan short term, long term is not predicated getting back to flat…

Bonnie Herzog

And it's good that you also mentioned Pacifico and how well that brand is doing. So a question for me is, given the resilient success of Pacifico, why are you not accelerating the expansion of that brand?

James Sabia

Oh, we are. I mean we're up to 25 million cases. We're spending more money than we ever have. The thing about Pacifico, which we get really excited about is it has the formats to get there with a beer brand. You think about Modelo, it has bottles, cans and draft. Corona really is 89% bottles, right, 11% cans and very, very, very little draft. Well, Pacifico has all 3, too, right? We started with bottles, then we went to cans. And now the big unlock for us, too, besides simple and effective distribution kind of east of Mississippi here is draft. And we're starting to get handles. We're starting to get awareness because you need to walk into a bar and see this handle and say, what is that? That's Pacifico. I've heard about that.

You know what, it's $8. New York is like $11.50, $12. Most markets it's like $8 a pint, can you try it. So that's where Pacifico, we're going to get even more aggressive going forward. And if you think about that brand, the brand has been around since 1900. And the equity it has with the color yellow, it really, really starts to stand out. And it's a great liquid. It really is a great liquid. It's an easy drinking lager, and we're getting a lot of distribution in craft bars because it's easier to drink than some of the crafts out there.

Bonnie Herzog

All right. Much as I could keep talking about beer. Let's switch to wine and spirits. And a key question maybe for you, Garth, is why didn't you pursue a full divestiture of your wine spirits business? And then why are you certain that the divestiture will finally support better performance, sorry, given that we've kind of heard this from you before. So yes, and then that didn't materialize. So why is it this time it's going to work? And then why didn't you consider getting rid of all of it?

Garth Hankinson

Yes. So look, I would say that, first of all, once the transaction is behind us, the portfolio that remains is going to be a portfolio that's more strategically aligned with not only where the consumer is, but where we expect the consumer to continue to be. And I think we can acknowledge that there's been a bifurcation, if you will, in the wine category for those brands priced below $15 and those priced above $15. And our center gravity going forward will be clearly above $15. If we look at the portfolio that we're divesting and look at the 52 weeks that ends that kind of correspond with our fiscal year, mainstream wine was down 7%, premium wine was down 1%, and those trends were worse in Q4 than on a full year basis. And then you juxtapose that to the portfolio we're keeping, the single largest brand in our portfolio post transaction will be Kim Crawford, and that outperformed the premium segment in Q4.

And if you think about the portfolio in total that we're keeping, that had depletion growth rate of about 4% in Q4. So it's definitely a portfolio that's got some more tailwinds to it than it is prior to the transaction. And then if you just think about performance going forward, the segments, again, that we are going to be participating in, in Wine and Spirits, their expected growth rate over the next couple of years is in the low to mid-single digits.

So we think we can generate that kind of growth albeit we got to get through FY '26. FY '26 very much is a transitional year for Wine and Spirits, and you won't see the benefits of the transaction necessarily in our results, and you saw that in the guidance that we provided.

What we're facing in FY '26 that you'll see in the results is in FY '25, we did benefit from a $34 million distributor payment related to the contractual obligations of that. So that was a bit of a tailwind for us in FY '25. And then in FY '26, oh, by the way, that $34 million in FY '25 hit both the top and the bottom line. In FY '26, we have about a $56 million top line hit and a $41 million bottom line hit that's a negative for us, a headwind for us, if you will, that are associated with financial or volume-related contractual obligations. So those 2 things kind of occur this year that will certainly make this year not look as good as what will look like once we get past the transaction.

I think it's important to note, too, that, that benefit that we saw in FY '25 kind of happened throughout the year across the quarters versus the headwind that we're facing this year will happen – occur mostly in our first fiscal quarter. But again, once we're through this and given the segments that we compete in, we're confident that we can have a portfolio that has low single-digit top line growth and bottom line margins in the low to mid-20s. And then to your question around the totality, as we've always said like, look…

Bonnie Herzog

No buyer…

Garth Hankinson

There's no – we look at anything in the portfolio, and we'll continue to do that. But we feel good about the portfolio we have going forward.

Bonnie Herzog

All right. We have just a little bit of time. I want to touch on capital allocation. I know you've recently been active in the debt market. So your leverage is up just a little bit above that 3x. Are you expecting to go back to or below, I should say, the 3x target? Or are you going to manage it closer to the 3 ratio that we've seen in the past? Just trying to think through that. And then in the context of that, how do we think about buybacks, share buybacks?

Garth Hankinson

Yes. I mean I think – so you're right, we've been in the debt markets as we've got some debt that we've got to – it's come through over the course of the next 12 months or so. Our capital allocation priorities don't change. We're committed to being investment grade. We think that the right leverage target for us is 3x. So that doesn't change. We're committed to a 30% payout on our dividend. We're going to – we're still committed to CapEx in the beer business over the – through FY '28, about $2.2 billion, $2.4 billion in total CapEx, about $2 billion of that is in the beer business. And then buybacks. I mean, I think that we just announced in April a new authorization from our Board for $4 billion that has a term to it that ends in FY '28.

Look, we're going to continue to maintain the same discipline and opportunistic approach that we've had the last couple of years, right? So the intent is to be in the market in a programmatic way, but also have that flexibility to be opportunistic where we think – where we see dislocations in share price. So I think that this is part of the underappreciated part of the Constellation story. So I hope people continue to pay attention to it.

Bonnie Herzog

So right now might be that opportunity of dislocation possibly. All right. Thank you so much. That's all we have time for. I appreciate it.

Garth Hankinson

Thank you.

Bonnie Herzog

Thanks, everyone.