Constellation Brands Inc, Q4 2017, Earnings Call 2017-04-06

Presentation

Operator

Welcome to the Constellation Brands Fourth Quarter and Full Year 2017 Earnings Conference Call. — ***Operator Instructions*** — I will now turn the call over to Patty Yahn-Urlaub, Senior Vice President of Investor Relations. Please go ahead.

Patty Yahn-Urlaub

Thank you, Maria. Good morning, everyone, and welcome to Constellation's Fourth Quarter and Fiscal Year-end 2017 Conference Call. I'm here this morning with Rob Sands, our President and Chief Executive Officer; and David Klein, our Chief Financial Officer. This call complements our news release, which has also been furnished to the SEC.

During this call, we may discuss financial information on a GAAP, comparable, organic and constant currency basis. However, discussions will generally focus on comparable financial results. Reconciliations between the most directly comparable GAAP measure and these and other non-GAAP financial measures are included in the news release or are otherwise available on the company's website at www.cbrands.com.

Please also be aware that we may make forward-looking statements during this call. While those statements represent our best estimates and expectations, actual results could differ materially from our estimates and expectations. For a detailed list of risk factors that may impact the company's estimates, please refer to the news release and Constellation's SEC filings. — ***Operator Instructions*** — Thanks in advance, and now here's Rob.

Robert Sands

Thanks, Patty, and good morning, and welcome to our year-end call. Fiscal 2017 was a very dynamic and rewarding year marked by milestones that produced impressive double-digit growth in sales, EBIT and operating cash flow. Our path to these impressive results was paved by great execution in growing our core business, supported by investments to enhance our portfolio and our operations.

I believe it's worth reviewing our achievements since they collectively illustrate our commitment to sustaining profitable growth and building shareholder value. I'll follow that up with a review of our business performance, along with some of the great initiatives we have underway for fiscal 2018. We made a series of value-creating portfolio moves that aligned with our premiumization strategy and enabled us to capitalize on U.S. market trends that favor high-end wine and spirits brands.

This included our acquisitions of The Prisoner and Charles Smith Wine brands as well as High West Distillery, which paved our entrance into the high-end craft whiskey category. Each of these additions boast award-winning products, premium positioning and exceptional growth. In fact, these newly-acquired brands grew depletions 47%, 67% and 34%, respectively, during our fourth quarter. Meanwhile, the recent sale of our Canadian wine business supports our strategy to focus on higher-growth, higher-margin businesses – business initiatives and to strengthen the financial profile of our overall wine and spirits business. Even after the sale of this business, Canada remains our largest export market as we have had excellent success selling some of our Focus Brands in the Canadian market, including Kim Crawford, Ruffino and Robert Mondavi.

Now these activities were complemented by Constellation Ventures' investments to further explore innovation in brown spirits. They include Catoctin Creek Distilling Company, a producer of premium, rye whiskey and gin from organic sources; Bardstown Bourbon, the largest new whiskey distillery in the U.S.; and Nelson's Green Brier Distillery, a producer of craft whiskeys.

From an operational perspective, we made strategic investments in our beer business to ensure we have the capacity, quality, control and flexibility to support the exceptional industry-leading growth of our beer business and to meet expected consumer demand for our products well into the future.

We recently acquired ABI's brewing operation in Obregon, Mexico, which provides an immediate source of supply and functioning brewery capacity for our iconic portfolio of Mexican import brands as well as flexibility for future innovation initiatives.

During the fourth quarter, we completed the next phase of expansion at our Nava Brewery in Mexico to reach 25 million hectoliters of capacity ahead of schedule. And earlier this year, we fired up furnace number 2 at our nearby glass plant, which is now producing quality glass at optimal capacity levels.

Throughout fiscal 2017, particularly later in the year, we repurchased more than $1 billion worth of outstanding shares during periods when our stock traded at prices that we determined to be good value. And we achieved investment-grade debt status for the first time in the company's history.

So to recap, the record operating cash flow that we generated in fiscal 2017 provided significant capital allocation flexibility that enabled a sizable dividend increase, significant share repurchases, value-creating acquisitions and investments to support the outstanding growth momentum of our business.

So let's move now to a discussion of the excellent business performance our team achieved in fiscal 2017 and some of the initiatives we have underway for the coming year. Our beer business continues to be a powerhouse for growth as the #1 brewer and seller of imported beer in the U.S. market.

For the fourth consecutive year in fiscal 2017, Constellation is the #1, the #1 growth contributor in the U.S. beer category, outperforming key competitors and all other imports. And Constellation was the leader and #1 share gainer in the high-end segment of the U.S. beer market in calendar 2016, with our beer business driving almost 100% of import volume growth.

Now as we look back at the past year's accomplishments and ahead to fiscal 2018, let's begin our discussion with the clear heavyweights in our portfolio, Corona Extra and Modelo Especial. Our flagship Corona Extra brand has been gaining share and is one of just 3 brands driving the majority of the growth in the high end of the U.S. beer market.

In fiscal 2017, this brand grew depletions about 5% versus the prior year and also achieved status on Interbrand's Top 100 Best Global Brands List. In fiscal 2018, for the fifth consecutive year, we're planning double-digit increases in our Corona media investments. And this has been a key growth driver of the brand with particular focus on live sports, including the NBA, year-round soccer, boxing and the NFL, which deliver the highest reach against our target consumers.

We also have several major initiatives in place to continue driving Corona Extra's growth. We've recently introduced 3-pack, 24-ounce cans in California and are expanding to additional markets. And we plan to regionally expand Corona Extra Draft beyond where it is available today. Now Corona Extra cans continue to represent a big growth opportunity. So upcoming plans this year include increased media investments and a new TV advertisement highlighting a limited edition can.

We also expanded our social media support and partnerships to focus on the canned format beyond premise channel and providing enhanced retail tools. Many of these activities are expected to be in full swing as we launch our "120 Days of Summer" campaign beginning with Cinco de Mayo.

We recently launched Corona Premier in key test markets. And while it is still too early to call, we are very pleased with the results to date in these markets. We are also in test markets with Corona Familiar 12-ounce bottles. Corona Familiar quarts are already one of the largest packages in the Corona franchise. And so far, we are pleased with the early results in the market test.

Moving to Casa Modelo. This trio of brands, which includes Modelo Especial, Modelo Negra and Modelo Especial Chelada, is one of the biggest forces in beer, delivering more than 14 million cases of growth to the U.S. beer category in calendar 2016. Modelo Especial, which is the Casa Modelo flagship brand, has achieved double-digit growth for nearly 25 years and has been one of the largest contributors to U.S. beer category growth over the last 5 years.

Ranked #7 nationally in dollars, Modelo Especial is now a top 5 beer in 8 major U.S. markets and the #1 beer in Los Angeles. Last year, this brand grew depletions more than 18% to almost 85 million cases. In fiscal 2018, our biggest opportunity for Modelo Especial lies in expanding distribution and enhancing our innovation pipeline. And we plan to continue to advertise across the entire Modelo family, including new TV and digital advertising.

We also see tremendous opportunity in the on-premise channel, where Modelo Especial grew almost 25% across draft, bottle and can offerings last year. The draft format alone increased more than 45%, making it the fastest-growing U.S. draft beer brand and the #1 shared on-premise channel in 2016. In fact in recent syndicated on-premise data, Modelo Especial became the largest-volume Mexican draft beer in the entire country.

Modelo Especial will have a full lineup of retail programs and consumer promotions delivering execution from Cinco de Mayo to the Christmas holiday in fiscal 2018. Modelo Especial recently became the official and exclusive import beer of the Chicago White Sox. This new marketing partnership offers brand exposure across the White Sox's expansive marketing assets, digital platforms, arena signage and an all new bar connected with the stadium.

In calendar 2016, Modelo Especial Chelada contributed 95% of Chelada category growth in the U.S. beer market. To capitalize on this trend, Chelada Tamarindo Picante was recently launched, becoming the second Chelada flavor to join the Casa Modelo portfolio. In addition, we are launching Chelada 3-packs to expand our single-serve distribution as well as Modelo Especial 18-packs to allow loyal customers to trade up to larger packages size and hit feature price points at retail focused on basket building with larger pack sizes.

Now as you are aware, the bench strength of our beer portfolio goes deeper than our biggest brands. We believe Pacifico has the potential to be the next big national brand in our beer business. In calendar 2016, this brand sold 5 million cases in the State of California alone. Not only is Pacifico growing double digits in California, we have had excellent success with our recent expansion efforts in markets like Seattle and Denver with the addition of TV advertising.

Pacifico draft velocities are also strong across the country. As a matter of fact, after 8 consecutive years of consistent single-digit growth, Pacifico reached the 8 million case mark and achieved depletion growth of almost 20% in fiscal 2017. In fiscal 2018, we are launching the Pacifico 12-ounce can to build on success – on the success of the 24-ounce SKU. We are doubling our advertising with 2 new TV spots on channels like ESPN, TNT and Comedy Central, while also investing in live sports, including the NBA, MLB and NFL.

And let's not forget about Ballast Point, which was the #2 dollar growth contributor in the U.S. craft market this past year, adding almost 11% of craft industry volume growth and posting double-digit depletion growth. Throughout the year, Ballast Point beers were awarded more than 40 medals, including gold for Grapefruit Sculpin and California Ambers at the US Open Beer Championship. They also won the 2016 Champion Large International Brewery Award for brewing excellence at the Australian International Beer Awards.

In fiscal 2018, our plan is to continue to expand Ballast Point distribution. We have opportunities to drive continued growth through innovation with brands like Monterey, [Monterey Double IPA], Red Velvet Nitro, Bonito Blonde Ale and Sea Rose Tart Cherry Wheat Ale just to name a few. As you would expect, I have sampled every one of these unique beers, and I believe they are all winners.

We are also planning to increase our Ballast Point sales and marketing investments while leveraging Constellation resources like national accounts. These initiatives are expected to drive the double-digit growth we are targeting in fiscal 2018 for Ballast Point. We continue to build our East Coast brewery in Daleville, Virginia and expect to be brewing there this fall.

Overall, I am excited about the growth prospects for our beer business for fiscal 2018. And as you can see, we have tremendous opportunity to grow the business through enhanced distribution and execution opportunities across the portfolio. As a result, we are targeting beer business net sales growth in the 9% to 11% range and operating income growth of 11% to 13%.

Now before moving on to wine and spirits, I'd like to take a minute to discuss published IRI and Nielsen consumer takeaway data for our beer business that corresponds with our fourth quarter results as there seems to be significant discussion related to these growth trends.

First, IRI channels represent about 50% of our overall beer business at retail and therefore provide only a partial picture of the brand and portfolio performance outside of the sales, shipment and depletion results we report each quarter. Within IRI channels, throughout the fourth quarter, we experienced significant variability from week to week, especially in the month of December, which was a challenging month for the entire U.S. beer industry.

Much of this relates to year-over-year timing and selling day comparison issues for import holidays during the quarter, including Christmas and New Year's. We also experienced poor weather versus the prior year in the month of February, particularly in California, which is our largest market. While consumer takeaway is a standard measurement, depletions represent our entire business and are an even more comprehensive indicator of growth and health.

Given some of the factors I just mentioned, we continue to see an increase in brand relevance and key brand health metrics for our entire portfolio. And we are on track to deliver depletion growth of 9% to 10% for the first calendar quarter of 2017. As I mentioned earlier, our Nava Brewery completed its next expansion phase ahead of schedule. And we gained complete independence from the ABI interim supply agreement with the acquisition of the Obregon brewery.

The Nava Brewery is also ahead of schedule to deliver on the next phase of expansion, which takes the brewery to 27.5 million hectoliters of capacity by calendar year-end. And we are getting ready to fire up furnace number 3 in the coming months at our adjacent Nava glass plant. The Obregon brewery continues to integrate systems and processes with the Constellation business and is performing at a very high utilization level. We are developing plans to increase our output from this site and are very pleased with the prospects that this brewery brings to our operational footprint.

And as mentioned last quarter, we have re-scoped our Mexicali project to initially build 5 million hectoliters of production capacity at a more measured pace as a result of the acquisition of the Obregon brewery.

And now I would like to focus on our operational results for our wine and spirits business, which achieved strong earnings and margin growth for the year. During fiscal 2017, we executed on our key strategic – our key strategies related to premiumization, innovation and brand building. Overall, our wine and spirits portfolio gained total channel volume share in calendar 2016, while delivering exceptional results for our fast-growing, higher-margin Focus Brands, which grew depletions about 9% for the year.

Many of these Focus Brands achieved significant milestones and accomplishments last year. Four of our brands were featured on wine.com's Top 100 List for Calendar 2016, including The Prisoner; Kim Crawford, which emerged as the #1 Sauvignon Blanc in IRI channels; and Meiomi, which has achieved the 1 million case milestone.

Our products also called out in the Beverage Information Group's awards, where 4 of our brands achieved fast-track status, recognizing their impressive growth. Three were named rising stars, and 7 were listed as established growth brands, including Mark West, Ruffino, SIMI, and Woodbridge by Robert Mondavi.

From an operational perspective, we improved productivity and created efficiencies through our cost of goods sold optimization initiatives, and we continue to drive efficiencies throughout our wine and spirits manufacturing operations. For the year, our spirits portfolio posted excellent net sales growth of 9%, driven by High West, Paul Masson and SVEDKA.

From a strategic perspective, in fiscal 2018, our goal for the wine and spirits business is to grow profits ahead of sales while improving margin, which is reflected in our fiscal 2018 wine and spirits guidance of 4% to 6% sales growth and profit growth in the 5% to 7% range for the year.

So what will be the drivers of this goal? We plan to optimize our route to market by evolving our organizational structure to better align with the way we interact with our distributors and our retailers, while further developing our account segmentation capabilities to ensure that we are targeting the right products and the right accounts during the right time of the year.

Now these changes in our route-to-market structure provide additional focus on the higher-margin fine wine and spirits part of our business. We remain committed to mix and margin-accretive innovation and new product development and have several new products in the pipeline. This requires us to maintain the discipline we have established with our research and development efforts. It also includes continuing the renovation work we have begun with brands like Robert Mondavi Private Selection, which is a great turnaround story.

Building on the success of this brand, we have also renovation plans for some of our other brands, including Clos du Bois, Estancia and Cook's. We are excited about the innovation brands we have recently launched and are planning to launch this coming year, including Ravage, Cooper & Thief, [Kelly collection], Clos du Bois Lightly Effervescent Chardonnay and Meiomi Rosé, just to name a few.

We plan to aggressively manage our core business to drive acceleration of key Focus Brands that has scale, growth, momentum and higher margins. This is going to require increased marketing investments to achieve this goal. For example, we are launching a new TV advertising campaign for Woodbridge by Robert Mondavi, which is the largest wine brand in our portfolio, and we are significantly increasing our digital investments.

We also have plans to rationalize our portfolio of tail brands and have already begun the process of discounting – discontinuing about 15% of our lower-margin, value-brand SKUs in an effort to simplify our portfolio and drive focus on those brands that will drive higher profitability and higher returns. And for the fourth consecutive year, we plan to execute price increases for selected products within the portfolio.

Finally, we are committed to operational effectiveness with an increased focus on safety, service and quality while delivering new capabilities from our technology investments. This also includes an expansion of wine and spirit-sourcing initiatives to optimize supply by achieving the right style, quality and margin structure across our brand portfolio. And we plan to improve production efficiencies through ongoing footprint consolidation.

In closing, it has certainly been another exciting year at Constellation. We are very proud to have delivered another rewarding year of value to our shareholders, and I am pleased that our results can support a significant dividend increase in the coming year. We delivered exceptional performance and continued growth momentum and remain one of the best-performing companies among our consumer peers.

In fact, Constellation drove more dollar sales growth than the next 3 beverage alcohol companies combined, and we contributed 25% of the overall U.S. total beverage alcohol industry growth in calendar 2016. That's why we believe that Constellation provides the best-in-class combination of sustainable top line growth and profitability in the consumer products space. I would like to thank our employees for their outstanding efforts this past year and our shareholders for their continued support.

With that, I would now like to turn the call over to David Klein, who will review our financial results for fiscal 2017 and provide the outlook for fiscal 2018. Thank you.

David Klein

Thanks, Rob, and good morning, everyone. Fiscal '17 was another exciting year as we continued to generate top-tier growth in the CPG space. Our businesses turned strong marketplace performance into strong financial performance as we generated over $7.3 billion of net sales and 12% net sales growth; expanded operating margins in both businesses and improved our consolidated comparable basis operating margin by 140 basis points; increased comparable basis EBIT and diluted EPS 18% and 24%, respectively; and produced $1.7 billion of operating cash flow, an increase of 20%.

The strong earnings, operating cash flow growth and divestiture of the Canadian wine business helped our net debt to comparable basis EBITDA ratio finish at 3.7x, even as we made capital investments in our Mexican operations, purchased the Obregon brewery, acquired The Prisoner, Charles Smith and High West and returned cash to shareholders with $315 million of dividends paid and $1.1 billion in repurchases of stock.

We expect fiscal ’18 to be another year of strong financial performance as we’re targeting healthy net sales, EBIT, comparable basis EPS and operating cash flow growth, while we continue to invest in our world-class Mexican beer operating platform and increase our dividend per share by approximately 30%.

Let’s look at fiscal ’17 performance in more detail, where I’ll generally focus on comparable basis financial results.

Starting with beer. Net sales grew 17%. Organic net sales increased 13%, primarily due to volume growth of 11% and favorable pricing. Depletion growth for the year came in at 10.4%. These results were in line with the enhanced beer guidance we provided at the second quarter. I’d like to point out that previously reported beer shipment and depletions volume have been restated for correction related to the conversion of 7-ounce Coronita cases to 12-ounce, 24-pack case equivalents. This restatement had an immaterial impact on previously reported growth rates.

We’ve added historical shipment and depletion information to our segment schedule located in the financial history section of our investor website. Beer operating margin increased 140 basis points to 36.3%. Benefits from pricing and foreign currency were partially offset by marketing investments and consolidation of the Ballast Point business.

For wine and spirits, net sales increased 6%. This reflects a 4% increase in organic net sales, driven by volume growth and favorable mix, and an acquisition benefit from Meiomi and The Prisoner. Total U.S. depletions grew 3% for the year, while our Focus Brand portfolio posted 9% depletion growth. Wine and spirits operating margin increased 100 basis points to 25.8%. Benefits primarily from the addition of Meiomi and The Prisoner along with favorable mix were partially offset by investments in SG&A and marketing.

Interest expense for the year increased 6% to $333 million as higher average borrowing rates were partially offset by lower average interest rates. When factoring in cash on hand, our net debt at the end of February totaled $9.1 billion, an increase of $1.1 billion since the end of fiscal ’16. This activity primarily reflects the funding for The Prisoner, Charles Smith, High West and Obregon acquisitions as well as our stock repurchases, partially offset by proceeds from the divestiture of the Canadian wine business and our free cash flow generation.

Our net debt to comparable basis EBITDA leverage ratio came in at 3.7x at the end of fiscal ’17 versus 3.8x at the end of fiscal ’16. Our comparable basis effective tax rate for the year came in at 26.8% versus 29.6% last year. This reflects the benefit of the APB 23 accounting on part of our current year foreign earnings.

As a reminder, during Q3 fiscal ’17, we determined that a portion of our foreign earnings would be indefinitely reinvested. This assertion allows the company to record income taxes on certain foreign earnings using the applicable foreign jurisdiction tax rates rather than the higher U.S. tax rate.

Now let’s review Q4 results. Comparable basis diluted EPS came in at $1.48 per share, up 24%. Organic beer net sales increased 10% due to volume growth of 9% and favorable pricing. Beer operating margin increased 320 basis points to 38%. This increase was primarily driven by foreign currency as the benefit from pricing was essentially offset by higher depreciation.

Wine and spirits organic net sales increased 4% mostly due to volume growth. Wine and spirits operating margin increased 160 basis points to 26.6%. Benefits from the divestiture of the Canadian wine business and the acquisition of The Prisoner and Charles Smith were partially offset by investments in SG&A and marketing.

Moving to fiscal ’17 free cash flow, which we define as net cash provided by operating activities less CapEx. We generated $789 million compared to $522 million last year. Operating cash flow totaled $1.7 billion, up 20%, primarily driven by our earnings growth. And CapEx totaled $907 million, which was slightly above last year’s spend.

Moving to our full year fiscal ’18 P&L and free cash flow outlook. For fiscal ’18, we expect to leverage our ongoing portfolio premiumization efforts and execute the marketplace initiatives outlined by Rob to deliver another year of strong financial performance as we are projecting our comparable basis diluted EPS to be in the range of $7.70 to $8 per share. The midpoint of this guidance has us targeting 16% growth.

Our beer business is targeting net sales growth in the range of 9% to 11% and operating income growth in the range of 11% to 13%. Our projections include 1% to 2% of anticipated pricing benefit from our Mexican portfolio. We’re pleased that our beer operating margin finished fiscal ’17 a little over 36%. This was a little above the high end of our most recent guidance. The outperformance was primarily driven by FX favorability that I discussed earlier. Our fiscal ’18 beer segment guidance has us targeting operating margin expansion for the year.

In fiscal ’18, we expect to see positive gross margin benefits from product pricing, ongoing favorability from foreign currency, glass-sourcing initiatives and supply independence from ABI. These benefits will be partially offset by a ramp-up in depreciation as we continue to bring assets online and optimize new capacity.

Looking closer at depreciation and amortization expense for the beer segment, it totaled $115 million in fiscal ’17. We expect that to increase by approximately 50% in fiscal ’18. We also expect our fiscal ’18 SG&A and marketing spend rate as a percentage of sales to be similar to fiscal ’17.

For the wine and spirits business, for fiscal ’18, we expect reported net sales to decrease in the range of 4% to 6% and operating income to be flat. These projections include the estimated negative impact of the divestiture of the Canadian wine business and the estimated incremental benefits from the High West, Charles Smith and The Prisoner acquisitions.

As outlined in our press release, for fiscal ’17, through the mid-December divestiture date, net sales and operating income that will no longer be part of our wine and spirits segment as a result of the sale of the Canadian wine business totaled $311 million and $50 million, respectively. When excluding these amounts from our fiscal ’17 wine and spirits results, we expect net sales growth of 4% to 6% and operating income growth of 5% to 7% as our premiumization activities continue to drive operating margin expansion.

In addition, we expect our tax rate to approximate 22%. The decrease versus the fiscal ’17 tax rate reflects additional anticipated foreign tax rate benefits through the APB 23 assertion on a larger portion of our foreign earnings and an anticipated benefit from a new accounting standard related to stock-based payment awards, which Constellation will adopt starting in fiscal ’18. Let me spend a few minutes on this.

In fiscal ’17 and prior years, accounting standards required excess tax benefits related to stock-based compensation awards to be recognized in equity and the cash benefit to be reflected in the financing section of the cash flow statement. The new standard now requires this benefit to be recognized as a reduction of tax expense in the income statement and presented in the operating section of the cash flow statement.

Our tax rate guidance includes an estimated 3% benefit related to the adoption of this new standard. This benefit can fluctuate significantly depending on the timing and level of stock option exercises. As a result of this, we expect much more volatility in our effective tax rate on an annual and a quarterly basis. Interest expense is expected to be in the range of $340 million to $350 million, and weighted average diluted shares outstanding are targeted at 201 million. This does not assume additional share repurchases. I would also note that our comparable basis guidance excludes comparable adjustments which are detailed in the release.

We expect fiscal ’18 free cash flow to be in the range of $725 million to $825 million. This reflects operating cash flow in the range of $1.9 billion to $2.1 billion and CapEx in the range of $1.175 billion to $1.275 billion. This includes approximately $1 billion of CapEx for our Mexico beer operations expansion. Fiscal ’18 should represent the peak spending year for these activities.

In closing, we believe we have the right strategies in place to capture the growth opportunities in beverage alcohol over the long term. Our impressive fiscal ’17 results and our business initiatives and financial goals for fiscal ’18 demonstrate our focus on generating sustainable growth and top-tier financial performance in the CPG space as part of our efforts to increase shareholder value.

And with that, Rob and I are happy to take your questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from the line of Dara Mohsenian of Morgan Stanley.

Dara Mohsenian

So Rob, on the beer volume front, you continue to perform very well from a growth standpoint and obviously from a market share standpoint within the industry. It's not much of a change versus the larger brewers, but we have seen more recently a large slowdown in the craft segment. And getting more fair share of merchandising and distribution has already been a focus for you guys in terms of your beer portfolio. So in light of those factors, I was just hoping you could review for us the rate of distribution expansion you're expecting in fiscal 2018. Should we expect an acceleration versus recent trend? And then secondly, also in the beer volume front, now that you have more capacity in place, are there any big opportunities across your brand portfolio or on the innovation front that you're now pursuing more aggressively as a result of the capacity growth?

Robert Sands

So yes, we are expecting to increase the pace of distribution growth across our beer portfolio. In fact, we expect roughly 70% of our growth in beer next year, Dara, to come from distribution growth. So this is really the key variable in achieving our results. And with the momentum behind our portfolio and sort of the nature of our portfolio entirely on the high end and really being one of the most important profit drivers at wholesale and at retail, okay, we expect that we will achieve our distribution growth goals and therefore our overall growth goals. Now to your next question about production capacity and innovation, the answer to your question is 100% totally. We are well set up now to really drive, number one, parts of the business that we haven't been driving really because we were concerned, while we were under the Interim Supply Agreement and we didn't have necessarily the capacity in place to start driving business that we were uncertain that we could supply. So certainly, in terms of existing brands, other brands in the portfolio like Pacifico, where we're really starting to make a push to driving that to be one of the key growth providers in the portfolio, is an example. And then clearly, our NPD in beer, which we've recently launched, right, Corona Premier and the Corona Familiar product, are examples of NPD that we weren't in a position to do up until now, but now we are extremely well positioned with 2 big breweries, Nava and Obregon, fully onstream as well as a third brewery well underway. So we're very optimistic about both what we can do now with yet another brand that we think is going to be a big growth driver, Pacifico, and what we can do with NPD in the business, which appears to be very successful at least in test markets thus far.

Dara Mohsenian

Okay, that's helpful. And then David, on the beer margin side, the expansion of 60 basis points implied by the midpoint of the initial fiscal '18 guidance, it still seems conservative despite the depreciation increase when you consider the historical expansion and all the positive factors you mentioned like the glass savings, pricing, top line leverage moving off ISI, et cetera. So it seems like those positive factors would overwhelm significantly the depreciation increase. So are there other prohibitive factors limiting the margin upside as we look to next year beyond the depreciation? Or are you just being conservative this early in the year?

David Klein

I think out of our $2 billion of COGS in beer, there are just a lot of moving parts, things that swing your way, things that move in the other direction. I want to just make clear that our guidance implies a peso rate of about MXN 20 to the dollar, right? And we know that's running a little bit less than that. It's in the high 18s as we sit here today. I think it's – I think we're suggesting continued margin expansion, but I think we're just being prudent at this point in the year.

Operator

Our next question comes from the line of Judy Hong of Goldman Sachs.

Judy Hong

So I guess, just going back to the beer volume. Certainly, the Nielsen IRI could be pretty volatile. But it looks like your depletion growth has also been pretty volatile in the last few months. At CAGNY, you had talked about 8% depletions for the fourth quarter. You came in at 6.2%, which implies obviously a pretty big slowdown in February and then March looks like it got better. So just a little bit of color just in terms of what's going on. Obviously, the broader industry has been pretty soft, but certainly the weather is having an impact. But any color just in terms of the cadence of your depletion growth and then what you've seen so far from a March perspective would be great.

David Klein

So yes, Judy, as it relates to our fourth quarter performance, I would say that February ended up a little softer than we had expected at the time, and I think there's a danger in watching the week-to-week or even month-to-month depletions. I think, if you look at our overall trends in the business, we continue to gain share in the business at about the same rate as we have been over the last 12 to 24 months. Clearly, total beverage alcohol has slowed down a little bit over the past 12 months, but that seems to be nearing what's happening in the broader CPG category as well. So we feel pretty confident to be sitting here in early April and putting out I think some pretty strong guidance for our fiscal '18. So despite the volatility that we're seeing, we're pretty confident in our ability to deliver these numbers.

Robert Sands

Okay. And I guess I'll just add, Judy, that what's becoming, I think, obvious to everyone is that in the short term sort of as a result of where holidays fall, the number of sell days in a particular month, et cetera, there's a lot of fluctuation in the short term that can affect short-term volume, whether you're talking depletions or otherwise. And I would encourage everybody to sort of focus on stacked results as opposed to focusing on these very short-term numbers, which there is a lot of volatility associated with those short-term numbers. You can see it in December numbers, which were across the industry, not very good, okay, and is driving a lot of the slowdown. And in December, basically, what you had were holidays falling on weekends instead of the middle of the week. So instead of people drinking twice during the week, they were only drinking once during the week on the weekend, okay? This really did affect things. In March, okay, and April, you're going to see a shift, which, by the way, I think this will affect wine and spirits more than it will beer. You're going to see a shift of Easter into April this year, right – mid-April this year from March last year. So that's really going to affect the numbers that you're going to be looking at on a short-term basis, as I said, especially in wine and spirits, because that tends to be more of a wine and spirits-drinking holiday than a beer-drinking holiday. But I think you have to look at those stacked results. Now in our case, right, fourth quarter, yes, depletions in beer looked a little lackluster. And then you look at first quarter of the calendar year, and I'd say everything basically bounced right back to be very consistent with the growth that we're expecting throughout the remainder of the year. And we've seen nothing at all right now that would suggest to us that just on a general proposition, whether it's across – whether it's beer or wine or spirits, if you talk about the industry as a whole, I think that we're fairly confident that you'll see things revert to the mean as it relates to industry growth across TBA. And I think on our own growth, we've seen nothing inhibiting us from achieving our guidance across the wine, beer and spirits portfolios, which I think will be very strong continued results.

Judy Hong

Okay, got it. And then secondly, just on beer pricing outlook. So I think you're sticking to the 1% to 2% pricing for 2018. There's obviously been some pricing skirmishes in the high end with Mich Ultra. How do you sort of think about your ability to get to that 1% to 2% pricing? Have you taken some of that pricing already in some of your markets and sort of your comfort level on that front?

Robert Sands

Sort of the same story. We see no inhibition or issues in achieving our pricing guidance. You point out skirmishes – every quarter, right, and basically every year, we're talking about some skirmish that has occurred, especially in beer, that constitutes some tea leaf reading, right, right? So whether it's low prices on Mich Ultra somewhere, for some reason, or whether last year, it was the giving away of Goose kegs in the Northwest, I mean, there's countless examples of this stuff all the time. But fundamentally speaking, we don't see pricing in the beer market portending anything other than the guidance that we have given and what we expect, which is the 1% to 2% pricing, which we will take very strategically market by market, brand by brand. And again, we're confident that we'll achieve that goal.

David Klein

And Judy, you know that pricing in beer for the most part is taken in the fourth calendar quarter of the year, right? So the pricing that – the preponderance of the pricing that we're counting on to achieve our guidance is already in the market.

Operator

Our next question comes from the line of Nik Modi from RBC Capital.

Nik Modi

A couple of questions. Just first, David, on the guidance on the peso. Is that inclusive of hedges? Just wanted to clear that up. And then the broader question is, so certainly, CPG volumes across all industries have slowed lately. And I'm just curious – I mean, you guys are in kind of unique position because you're gaining so much market share. But I'm just curious on your overall take on what you see with the consumer. I understand the timing of calendar and holidays and things like that, but it looks like something else is going on. I would be curious to your thoughts.

David Klein

So Nik, I'll take the peso question, and then Rob can respond on the market. But – so the – we're just saying that we're targeting in our guidance around the MXN 20 to the dollar. That includes our hedge program that's already in place. And I would say that we're probably about 50% hedged on the peso.

Robert Sands

So Nik, on the consumer side, I think that we definitely saw some softening in consumer confidence in the fourth quarter. The whys and wherefores of that are highly speculative, but I would say it's certainly around a lot of the political uncertainty and what has transpired across a lot of areas in that regard. On the other hand, as we move now past the first quarter, right, we're seeing some signs of increased consumer confidence. The jobs number, which came out very recently was higher than expected. And by the way, we track things like the correlation of various statistics, like job growth, like GDP against our beer performance over long periods. And I think a very good example is that job growth tends to be a positive for our business, as does GDP, by the way, tend to be a positive for our business. So as we see some of these things improve, I think that you're going to see consumer confidence improve. But you only have to sit around and watch the news to understand that there will continue to be a lot of political uncertainty for the next – well, I guess nobody can – that will be – the next is uncertain, the next period of time. One thing you could say is that we are totally uncertain about how long there will be political uncertainty.

Operator

Our next question comes from the line of Vivien Azer of Cowen.

Vivien Azer

So Rob, I really appreciate your commentary on a bunch of the transitory factors that are impacting both your results and Nielsen as well as the more constructive commentary on some of the March data. As we kind of look back on fiscal 4Q, is there any way to quantify any of that juxtaposing kind of California weather? Weather was really bad relative to your national trends. Anything to just help us understand the magnitude of some of that disruption?

Robert Sands

Look, it's all about December, right? December was a weird month. If December had been normal, the results would have been normal. I mean, that's basically the quantification of everything. So yes, I told you, and I'm sure you're already aware, the holidays and how they fell in December versus the previous year. You brought up the weather, I didn't.

David Klein

Rob doesn't allow us to talk about the weather.

Robert Sands

I don't like to talk about the weather because the one thing that we know for sure is that there is always going to be weather, okay? We're in a very fortunate position of not having necessarily to revert to the weather, okay, as our excuse for everything. So really, I think it falls back to December. And you could basically normalize December, and you would have ended up with normalized results as things have thus proved themselves to be the case following December and looking at the first calendar quarter. So – and that's – the December thing was across wine, beer and spirits. So I think as it relates to our portfolio, in particular, I mean we've given our guidance and we're confident on our guidance for the year of 2018. So I think that that's really sort of where the proof is, right? It's in the guidance and looking at the first calendar quarter on beer. And the IRI, to some degree as well, which only constitutes 50% of the business, but it remains a fairly decent indicator, and IRI looks good.

Operator

Our next question comes from the line of Pablo Zuanic of SIG.

Pablo Zuanic

Look, just 2 quick questions. One, can I just only drill a little bit deeper on the state of the consumer, particularly your Hispanic consumer? You said that, that represents about 40% of your sales. Just give us any color you have there. Obviously, you have better parts of that consumer than most CPG companies given your exposure there. That would be helpful. I understand you touched on the political situation, but just expand on that. And the second question, in terms of your relationship, if I just briefly, on the relationship with the wholesalers, I mean, obviously distributors are there. The Gold Network must be very happy with your performance, right? You're driving the industry growth. You made good them profit margins. But here you are bringing more SKUs to them. You said 70% of your growth is going to come from distribution. You're also bringing Ballast to them. Is that straining in any way the relationship with the distributors, especially when you are counting on distribution being such a big – distribution expansion being such a big driver of your growth?

Robert Sands

Yes, so I'll take both questions. I think that as it relates to consumer confidence, as you said, drilling down on that, if you look at the fourth quarter in particular, I do think that we saw a disproportionate negative impact on Hispanic consumer confidence. And that's kind of for all of the obvious reasons, I think, which is related to all the very unfortunate rhetoric with regard to Mexico coming out of the Trump administration and the news. Now that said, I would say that the Trump factor has diminished somewhat. And therefore, consumer confidence among Hispanics has probably increased a bit with all of the latest rhetoric, which is – I wasn't able to get ACA repeal and replace through. That's brought a lot of uncertainty around what they are not going to be able to do relative to tax reform. I'm sure you saw the comments from the Secretary of Homeland Security

Kelly, over the last 2 or 3 days basically saying that there isn't going to be a wall built that will stretch from border to border. Maybe they'll put up a couple of fences and this and that, but they've completely backed off of – or at least, Trump's cabinet has backed off of the wall rhetoric, which I don't think that the wall is one of the big factors that we're particularly concerned about, but it is of concern to our Hispanic consumers and does relate to the consumer confidence. So I think, on the Hispanic front, especially Mexican-Hispanic, I think that fourth quarter things were a bit disproportionately poor, but I think that it is improving because as things continue to move forward, it's sort of becoming more obvious to everybody that a lot of the stuff is rhetoric and sort of the business as usual in Washington as it relates to elections and election promises versus what actually happens. So – and then you do have the actual hard statistics like jobs being better than anticipated in the recent jobs report. So that's my commentary on that. And then your second question was on?

Patty Yahn-Urlaub

Relationship with wholesalers.

Robert Sands

Oh, yes, relationship with wholesalers. Now relationship with wholesalers is not being strained in any way, shape or form. Our relationship with our wholesalers on the beer side couldn't be better. In fact, we are 100% of their growth, okay? But for Constellation, okay, their businesses would be going backwards and their profits would be going backwards. We're their growth driver. And in many instances today, we are their largest profit contributor, period. As you know, we're largely – or at least the majority of our distributors are MillerCoors houses. And in many of the major ones, we've moved ahead of MillerCoors in terms of profit contribution. And as I said, we're providing the growth. They're very excited about new high-end products from us, and, in fact, dying for it is the truth of the matter. And then you take a look at a product like Ballast Point. Our distributors have not given up in any way, shape or form on the craft strategy, on the craft category. I would say that they are beginning, and I think this is a good thing, not a bad thing, just like the retailer to take a more measured approach to it and realizing that it doesn't make sense for them to carry every SKU under the sun and that they have to pare it down in that regard. But clearly, as businesspeople, both at retail and at wholesale, what they're thinking is we're going to pare down to the brands that are supported from an execution, from merchandising, from an advertising perspective by companies that have the wherewithal to invest behind these brands. And they're basically going to get rid of all those no-name stuff that they know that is fly by night and that the companies behind them don't have the wherewithal to support the brand. So I think that shakeout is going to work greatly to our favor. And then I think with – they see that we're bringing resources to this that the other competitive brands can't necessarily bring to the party. Some can, some can't. And when I say resources, it's resources like our national accounts, connections, team – hey, just it's our wholesalers, right? It's a virtuous circle. We bring to them the products that are driving all of their growth. They turn around and focus on the products that address all of their growth, which causes those products to do better than the other products. So I think that the Ballast Point falls well with that. And then the positioning of Ballast Point, right, the premiumization of it, right, this is just – this is exactly what the beer guys are looking for, our true, premium, high-margin beer products and that's both our wholesalers and the retailers. So I believe that they think it's an exciting proposition, and they will continue to drive that business.

Operator

Our next question comes from the line of Mark Swartzberg of Stifel Nicholas.

Mark Swartzberg

I guess 2 questions, one for you David and then a broader question for you, Rob. But there was an impairment charge, David, of $37.6 million in the quarter. So what was that for?

And then, Rob, as you think about your wine and spirits business, which is performing well and better than it did historically, you have a little bit bigger business in spirits. I'm wondering if that's aiding distribution for your wine brands. And if you can give us an update on your appetite for additional spirits bolt-ons. And then on the wine component of your business, how would you characterize the promotional environment generally and your ability to deal with promotion against your brands from competitors in wine?

David Klein

So Mark, on the impairments, that's really just a continuation of our premiumization strategy. So we had some wines, in particular, mostly sub-$5 labels we didn't sell a lot of cases of brands like Talus or Marcus James that we elected to discontinue in order to shrink the number of brands in our portfolio and drive the premiumization trend. So that was just good housekeeping, I would say, from a SKU management perspective.

Robert Sands

So Mark, to your questions, one, spirits distribution and how that relates to wine. I would say that it's separate largely. I mean, we're not – there's no strategy here to use spirits distribution to somehow drive wine distribution. In fact, we've created a separate spirits sales force to give more focus to our spirits business because, yes, we think that that's a great both growth and margin driver in the future for us, but we're not really trying to use spirits to drive wine distribution or necessarily vice versa, except to the extent that we do have a TBA approach. And when we are dealing with our major retail customers, in particular, the chains and mass merchandisers and clubs, right, where all the business is gravitating, and we're talking to the people who alcoholic beverage rolls up to, which there's usually an alcoholic beverage person, we're certainly taking advantage of the fact that across TBA, total beverage alcohol, we're providing all their growth or a large percentage of their growth and we're providing more profit to them largely than anybody else in the industry. So this is how we take advantage of our position across beer, wine and spirits with our major customers. In that, TBA, total beverage alcohol, continues to be the most important category in all of retail, and especially with the big chains, clubs and mass merchandisers, where that business is also gravitating to. It's the best profit provider. If you look at their top categories, which are CSR – right, carbonated soft drinks, CSDs and tobacco and alcoholic beverages, right. Well, alcoholic beverage is really their standout in terms of growth and profitability. And dairy, right, is another category. These are all largely declining highly commoditized categories versus beverage alcohol. So we do use our TBA position to drive distribution, but as it relates to wine and spirits, not really. But a big opportunity does exist for us with spirits, and our spirits portfolio intend to drive that. And yes, I mean, if we see any tuck-in acquisitions for spirits that we think make sense within our disciplines, right. Look, we haven't put aside any element of our financial discipline on anything that we do, nor are we going to, okay? So we will be selective on tuck-in opportunities. We're not going to obviate our financial discipline on some theoretical basis tied around strategy that isn't quantifiable into our financial discipline. So you can fundamentally count on that.

Mark Swartzberg

Yes. And I think one of the things…

Robert Sands

And then I'll talk about promo, which I…

Mark Swartzberg

Can I just interject real quick, yes, on the promo, just putting it aside for a quick moment? With the cash flow profile of the business being what it is and the dividend increase and the repo you completed over the last fiscal year, I would think that if I'm in your shoes, the ability to pick up the pace of bolt-ons, whether they're in spirits or wine or segments of beer is picking up, right? So that's kind of what's driving my question, I mean, I'm still focused on spirits. But am I right to think that your attitude to pick up the pace is picking up because of the nature of the cash flow situation?

Robert Sands

Well, that's an interesting question, and my answer is that in terms of our capital deployment strategy, okay, it probably hasn't changed – or I should say, it hasn't changed, okay? As we continue to see our cash flow generation build, we are going to strike the same kind of balance that we have struck between paying down debt and keeping debt levels within our target of sort of the mid-3s, okay? We will also continue to focus on returning value and dollars to shareholders, whether it's through things like our dividend increases or more stock repurchases, okay, to offset the kind of normal dilution that occurs in our business annually and tuck-in acquisitions. So I don't see much changing with regard to any of those 3 things, and we will continue to balance them. And then on the tuck-in acquisitions, specifically to your question about spirits, that's more a function of deal flow, right? Like what good things are there out there that will become available that meet our financial disciplines? That's a very unclear – there's no clear answer to that question. So if the deal – if all of a sudden a lot of things became available, again, balancing those 3 things, the debt load, the – our ability to offset dilution and return money to the shareholders, we're buying back stock, we will look at all of the good deals that are strategic for us both financially and otherwise in the portfolio as they come along and I'd say strategic for us. What do I mean by that? Well it helps meet our financial discipline. That's number 1. And then number two, right, it's got to be high margin, high growth, okay? We're not interested in much anything else if it isn't – that isn't, high margin, high growth, okay? We wouldn't just do a financial deal on something that was – that was something that didn't fit into the portfolio and what we're trying to do with the overall business and portfolio. So it's got to be the right category, to be high margin and high growth. There's lots of categories in beverage alcohol out there that are insignificant disfavor of the current time, and we're probably not going to go there, nor are we necessarily going to chase the absolutely, the greatest at any moment in time on the other side of that. So it's all a big balance.

Mark Swartzberg

Very helpful. And on wine, I was – just the short version of the promotional environment, how would you characterize what you're seeing vis-a-vis your portfolio or what you're looking at into the coming fiscal year?

Robert Sands

Well, when you think about promotion, because there's so much promotional activity in wine, I think that we tend to think more about it in terms of net price realization, whether it's through promo or frontline pricing. I'd say that in terms of net price realization, okay, wine is more robust than it has been in the past, meaning, in very simple terms, whether it's through reduced promotion or better frontline pricing, there's a little bit more pricing power and pricing – positive pricing activity, increased pricing in wine than there has been in the past. And I think, even in our own portfolio, we're probably, this year, planning on taking more pricing than we have even in previous years. So I'd say that's getting to be a fairly robust environment. Everybody is sort of realizing that often the difference between a great business, a good business and a bad business is around how much pricing power there is in the marketplace. And wine continues to premiumize at a very fast rate. And with the premiumization and the focus sort of becoming now more around wines priced between $15 and $25, as opposed to between $5 and $10, right, the price sensitivity on all of this stuff is somewhat diminishing, right? Because if you're looking at a bottle of Meiomi at $20 or other products that are now getting to be in the sweet spot of the commercial part of the business, all of a sudden, $0.49 isn't as critical as if you were talking about a $5.99, $7.50, where $0.49 is a gigantic percentage. So I think all positive news.

Operator

Our next question comes from the line of Andrea Teixeira of JPMorgan.

Andrea Teixeira

So I would like to go back to beer if possible. Your beer gross margins expanded nicely to all-time highs of 52%, and you also had an EBIT margin that grew nicely. So you're probably driven by this new capacity and the end of the supply agreement. But would you expect us to see some more reinvestment as you – in SG&A, as you alluded to in the prepared remarks, across beer and wine as well? And your guidance for the whole company actually implies some reinvestment but also some slight margin, gross margin expansion as well and slightly EBIT expansion. So how should we think of the balance of gross margin, operating margins going forward, especially if you have tougher comparisons into the year? And related to this, if you can expand on the beer capacity utilization. I know you probably also have some higher fixed costs, so should we expect any volatility as we see going through the quarters?

David Klein

Yes. So just thinking about margins, kind of at the EBIT margin level, Andrea, we do believe that we'll have some benefits during the year, as I said earlier, from FX and some benefits of coming off of the ISA and glass sourcing and so forth, offset by depreciation and onetime line commissioning costs because there's still going to be some noise in our COGS as we bring more capacity online. I think – so you're going to see a little expansion there. I would say that from an SG&A and marketing perspective, you can assume that, as a percentage of sales, that will remain consistent year-over-year. I will say, however, because you're hearing a lot of other consumer products companies talking about the work that they're doing to take costs out of their business, we're doing all of that same work with a view of being able to redeploy resources to initiatives that are going to continue to drive the top line growth of our business. So we are getting some benefits on the SG&A

and marketing line, but the benefit is really more effectiveness and more top line growth as a result of that work. And then from a capacity utilization standpoint, I would say that we're going to be flat out at Obregon and Nava as we go through the summer selling season. So I don't expect that we'll see fluctuations in our cost as a result of utilization issues on overhead. And in fact, I – our crops guys are really good, but I don't think we'll see a lot of spare utilization that they have to try to manage for a couple of years yet.

Andrea Teixeira

Okay. And in wine – I mean, I'm sorry, in spirits, if I can just add my second question on how – what are you seeing there because we didn't have a chance to discuss if organically you're seeing the continuous trends on that category?

David Klein

Yes, so – yes, we're continuing to see strong growth in the categories that we're playing in, in spirits, right? So brown spirits, tequila continue to do well. Our brands, in particular, continue to do well. In recent IRI, High West is up 79%. So we're seeing kind of good trends in the spirits business, as I said, in particular, in the place where our newest brands like Casa Noble and High West play.

Operator

Our next question comes from the line of Robert Ottenstein of Evercore.

Robert Ottenstein

Great. A couple of questions. So in the fourth quarter, there was a little bit less than a 300 basis point difference between the depletions and the shipments. What does that mean for the first quarter? And maybe talk a little bit about where inventory levels are and what we should expect between shipments and depletions in Q1.

David Klein

Yes. So we don't necessarily manage quarter ends all that tightly in beer because the inventory turns pretty quickly. We keep around 30 days of inventory on hand at our distributor on average across the portfolio. And we're roughly in line with that at year-end. Maybe we're up a little bit, but that's to be expected going into the summer selling season. So we're right where we want to be. We don't – we're not purposely building inventory at distributors. Again, we like that 30-day mark.

Robert Ottenstein

Terrific. And then could you talk a little bit about Obregon in terms of its impact in the quarter and in the following year in terms on the income statement and your margins? Is it having a positive impact, negative impact? How should we think about it?

David Klein

I would say that Obregon is probably – it's in line. It's not accretive or dilutive to our margins. It's – we get some benefit of being off the ISA. We get some mile freight benefits, but – to West Coast shipments, but it's a more costly facility, in general, to produce in for a whole bunch of reasons, which we're going to try to address over time. So I would say, in the near term, it's about awash.

Robert Ottenstein

But it sounds like you have a pathway to actually make it accretive over time.

David Klein

I think what you'll see over time is you see us – yes, right. And then, look, we're really looking forward to the date when we actually have 3 facilities functioning and we can optimize our production runs through those facilities to really try to drive the best possible margins. But at this point, we're producing and selling all the beer we can get out – we're selling all the beer that we can get out of our production facilities.

Operator

Our next question comes from the line of Laurent Grandet of Crédit Suisse.

Laurent Grandet

Yes. The first one is very quick, I mean, it's confirmation on tax. You guided 22% tax rate for the fiscal '18. Is that the new kind of run rate? I understand there would be more volatility here. Or is it just for full year '18? That's for you, David.

David Klein

Yes, good question, Laurent, because we talked about mid-20s at our investor meeting. And I would say that the 22% is a bit of a refinement, so we would expect that we go forward in that, in the 22% to 25%, so kind of the low end of mid-20s. Again, but keeping in mind the point that you made, there will be more volatility because of stock-based comp.

Laurent Grandet

Okay. And my second question, really, is more for you, Rob. I mean, you mentioned, I mean, 70% of the growth will be coming from distribution in the beer segment. Can I have a bit more granularity on this? I mean, what would be coming from Corona can and Modelo versus what will be coming from brands like Pacifico or Ballast? And then, I mean, what's the balance of the 30%? Is it national space that you are getting from light and economy beer? Or it's something else?

Robert Sands

Sure. So probably the biggest opportunity for growth is in Modelo Especial, where there's a lot of room for distribution growth to get a brand like that up to, say, the same distribution levels as the Corona Extra. So the focus will be on building Modelo Especial distribution. And then Corona cans is another huge opportunity for distribution growth as well as, as I said, some of the other products like Pacifico. And then Ballast Point, it hardly has distribution outside of California. So there's a big opportunity to drive the growth in Ballast Point through targeted distribution in other states. So bottom line is sort of across the portfolio, with probably the exception of Corona glass 12 packs, there's a lot of – there's just a lot of distribution growth opportunity, and distribution growth is the primary way to drive volume growth.

Laurent Grandet

And then about the balance of 30%? Is it, I mean, shelf space you were getting from a light on the economy? Or is it something else?

Robert Sands

Oh, that would be velocity. It's increases in velocity on brands that are getting distribution and becoming more popular. So you'll see both happen.

David Klein

Yes. A lot of that, when we do our regression analysis Laurent, a lot of that comes from incremental or more effective media spend as well as some of – some demographic and economic tailwinds.

Operator

Our next question comes from the line of Bill Chappell of SunTrust.

William Chappell

Just 2 quick questions. One, you said on Corona that we just finished the fifth year of double-digit increases on advertising and marketing. Will we have a sixth year? Or are we starting to get to kind of the equilibrium or have it – where you want to be in terms of behind that brand?

David Klein

We continue to get outstanding returns on investment from marketing spend on Corona, and so we'll continue to drive that brand. And in the context of our total SG&A remaining constant as a percent of net sales, I just want to be clear that we're going to continue to look for ways to be more efficient with our spend across that whole SG&A spectrum so that we have enough money to invest in brand growth.

William Chappell

Okay. So it implies double digit, kind of, for the portfolio while G&A gets maybe more efficient?

David Klein

Right, in aggregate. And as the – if you look at our beer business, and our beer business guidance has double digits, it implies everything else stays the same. We would be getting that kind of growth in our marketing spend.

William Chappell

And then one other. I might have missed this. But the outlook on the grape costs this year and what impact that's having on margins?

Robert Sands

I think that we expect grape costs to continue to be very stable. We're not anticipating any material impact on margin. That said, you just don't know right now because – until you get to the point where bud counts can be measured. And even that's fairly unreliable because there's a lot of weather that can occur between even then and at harvest. You don't know what the size of the harvest is going to be, which is what tends to affect grape pricing. But we're not expecting anything unusual. We doubt – I would doubt very seriously that we're going to see anything sort of out of the ordinary on grape pricing and therefore its impact on margins this year. So I would say it's something to particularly focus on.

Operator

Our next question comes from the line of Tim Ramey of Pivotal Research Group.

Timothy Ramey

Rob, I know you don't like to talk about weather, but there are 3 influences here coming up. First of all, the forecast for Cinco de Mayo is 81 in Sacramento, so that looks good. But it's been really raining for bud break, probably difficult to get machines into the field, and that's a negative. And then groundwater and reservoir levels are good, and so that's a positive. Is there any takeaway there? I mean, you just touched on that a second ago, but thoughts?

Robert Sands

Tim, you're not really supposed to use specialized wine knowledge in these conference calls. But the answer – again, the answer really continues to be no different than what – you're going to see different things happen in different regions. I mean, obviously, our wine business and where we source grapes from is so diversified that we're going to see some ups and downs. I mean, it could be tight in Napa. You take a brand like our largest high-end pinot brand, Meiomi, we're sourcing. The great thing about Meiomi, right, is it's a 3-Appalachian brand, meaning it comes from 3 different Appalachians, which gives us a lot of flexibility with regard to the sourcing of those grapes. And then obviously, we're continuing to source a lot of grapes from the northern Central Valley, from the Central Coast, Monterey. So I think you're going to see some balancing there, meaning you'll see some tightness in some areas, and you'll see some of the opposite in other areas. And obviously, also in the Pacific Northwest, that's also important to us now as well as the brand like Charles West that's…

David Klein

Charles Smith.

Robert Sands

Charles Smith, which is growing really high double digits. And therefore, we're using a lot of the Washington supply right now, which was part of that deal, which we locked up a lot of the Washington supply of premium wine grapes with the Charles Smith deal, which was one of the reasons that we thought it was a good deal. And it's turning out to be a particularly good deal with Kung Fu Girl Riesling making Top 100 in the Wine Spectator, and that kind of stuff really drives the growth of brands like that, so **— *indiscernible* —**

Timothy Ramey

Sorry. David on...

Robert Sands

— *indiscernible* —

Timothy Ramey

David, just 2 quick ones. The – any single point estimate on D&A for the total company for 2018? And then also on the new share compensation standard, that increase of shares outstanding slightly, I believe. And your share count forecast was a little higher than what I thought it would be. Can you find quantify that would be?

David Klein

Yes. So our share count estimate is really our best estimate as we sit here today, right. So it's inclusive of all of those points. And then, Tim, as it relates to depreciation and amortization, I would say you can think about the rest of the business as being fairly consistent. But we said that in the beer business, that number would be up by 50% year-over-year. So that's really the only change.

Operator

Our final question comes from the line of Stephen Powers of UBS.

Stephen Powers

Just 2 quick ones for you, David. First, just to round out the beer margin discussion. Is there any way you can help better dimension the benefits you've seen with glass furnace 2 coming online in Nava and what you expect for glass furnace 3 and 4 as you look forward?

David Klein

Yes. It's kind of hard to do in a real simple way, right. Because as I said on $2 billion of COGS in mid-4s, $1 billion of sales, we can have $10 million, $15 million swings, $20 million swings in both directions over a number of items. And so there's definitely a benefit for bringing on furnace 2 and 3 and ultimately furnace 4. But I think it really gets kind of absorbed into the overall margin numbers over time because we're really talking about $15 million swings as opposed to $70 million swings when you're putting up a furnace. What you can see, though, is if you look at our NCI charge on a year-over-year basis, we're going to – we expect that number to double on a full year basis to about $10 million, and that just represents incremental profitability in our glass joint venture.

Stephen Powers

Got it. Okay. That's helpful. And then finally on CapEx, with the $1 billion you're assuming for beer, this is in fiscal '18, I believe that leaves $500 million to $600 million remaining across '19 and '20 based on what you said previously. Just want to confirm that's still the 3-year aggregate assumption. And then as I think about that incremental, call it, $500 million to $600 million, should I – should we consider that to be more or less evenly split across '19, '20? Or is it going to be front-end loaded? Or is it too early to tell?

David Klein

Yes. So the numbers that you quoted are roughly right. What I would say is that when we talk about $1 billion, first of all, there's a range in that $1 billion. We just – we picked kind of a point in there. And I would say that, that isn't all – that's our entire beer capital number, right. It's not necessary all build-out. So the number over the next couple of years is probably a little bit higher than the $600 million you quoted, I think, but it's not going to be material in the grand scheme of things.

Operator

And that was our final question. I will now turn the floor back over to Rob Sands for any additional or closing remarks.

Robert Sands

Okay. Well, thanks, everyone, for joining today's call. As we wrap up our discussion of the fourth quarter and fiscal 2017 results, I want to emphasize how pleased I am with the excellent performance across all of our businesses. Our fiscal 2018 guidance shows we are very confident in our abilities to sustain profitable growth, and we are firm in our commitment to build shareholder value.

We look forward to the next time we speak with you in early July when we will share the results of our first quarter for our new fiscal year.

Before then, we hope you'll choose some of our fine products for your spring celebrations, including Cinco and Memorial Day weekend. And of course, enjoy them responsibly. And speaking of Cinco, look for us at the New York Stock Exchange on May 5 as we officially kick off our summer selling season by ringing the closing bell.

Thanks, everybody, and have a great rest of your day.

Operator

Thank you, ladies and gentlemen. This does complete today's conference call. You may now disconnect.