Constellation Brands Inc, Barclays 17th Annual Global Consumer Staples Conference
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Presentation

Lauren Lieberman

Thank you, everyone, for being here, and we're going to kick things off with Constellation.

So we have Constellation Brands kicking off the conference this year. We have Bill Newlands, the company's President and CEO; and Garth Hankinson, the company's Executive Vice President and Chief Financial Officer. So Bill, Gar, thank you so much for being here today. Since we had you here a year ago, you hosted the Investor Day, which we thought was very quantitative probably more than I think we expected and a lot of people did. And then you gave the update on the medium-term algorithm. So we've got lots of volatility in the marketplace and total beverage alcohol. So we've got lots to talk about today. So first, as I'm sure many of you have seen, you issued updated fiscal '25 guidance this morning, lowering the top line below the medium-term algorithm, so with better cost savings and below-the-line items that keep you aligned with the double-digit EPS growth of that same algorithm.

Question and Answer

Lauren Lieberman

So could you just talk a little bit more about the puts and takes that drove the updates you made this morning?

William Newlands

Sure. Why don't I start with that. We took a look at our top 5 markets: California, Texas, Florida, New York, Illinois. And what we were seeing is that those markets, which are roughly half of our business have been a little slower. They're in the low single-digit growth profile, and they're big. Part of what we're seeing is there are also markets that are over indexed in the Hispanic community. And there's been a bit of an uptick. As most of you know, the Hispanic consumer represents over half of our total volume.

We've seen an uptick in the unemployment rate with that consumer. However, if you look at the other sort of 45 states, we're up high single digits, and the business continues to accelerate in those markets. I think the important thing to recognize is this is an election year. If you look back at every sort of 4 years where there's a real question in consumers' minds as to who's going to be elected President, people tend to pull in a bit.

And that's part of what we're seeing is you're seeing a bit of that consumer wariness, most consumer companies are saying the same thing. And unfortunately, we're not quite immune to that. The important part, though, and you noted it is because of some of the terrific cost savings agendas, we're actually going to spend more against our business in the back half of this year than we had planned.

We have raised the lower end of our operating income on our beer side because of the strength of that, let me make it clear. We're not cutting our marketing. In fact, we're going to spend more money on our marketing in the back half of this year than what we had originally planned.

And I think it's also important to recognize we're still gaining share. We're up in our fiscal year-to-date 1.3 share points in the beer business. We are 4.5 points better than CPG if you look at Circana data. So our business remains very, very strong, and we're looking forward to a good back half of the year.

Garth Hankinson

Yes. I mean, Lauren, thanks for the question. The other thing I'll add on to Bill, there's a few points here. One, in addition to some of the macro consumer headwinds that we've seen, beer to a much lesser degree, the top line of beer has also been impacted a little bit by a couple of other factors, one being some lapping from last year with Oro trial and Modelo Especial awareness pump that we had as well as some betterment trends.

That being said, as you both noted, we've gotten to the cost saving initiatives a bit faster than expected and which has provided incremental benefits to the company. The progress on there has really kind of come from contract renegotiations and our logistics initiatives. And we're using some of those incremental benefits to invest incrementally in our – in brand building.

We're doing this mainly in national TV and with retailers. It's not promo or discounting or couponing and it's with our biggest brands. Likewise, in Wine and Spirits we're doing the same, we are taking that same approach, we're investing incrementally in some tactical pricing actions as well as marketing actions to support the demand of our largest, most important wine brands.

Unlike Beer though, the cost savings agenda hasn't yielded enough results to offset some of the deleveraging, which is what's driving the bottom line down there a little bit. But if I think about this from an enterprise-wide perspective, it's very much a positive story. Kind of leave you in this question – or to answer this question with sort of 4 points.

One is, we made a prudent adjustment to top line expectations for our beer business. A bit of marginally lower dose versus the long-term growth algorithm. But again, we expect to deliver the bottom line as we laid out in our guidance, in fact, be at the lower end of our prior guidance.

Point number two is, Wine and Spirits, the trends have got a little bit harder and worsened since the beginning of the year. And obviously, that's leading to the impairment, important for everyone to remember that the impairment is noncash, so it doesn't impact operating cash flows or free cash flows.

Third, again, as Bill referenced earlier, in light of these guidance changes, we're still going to deliver double-digit EPR – still expected to deliver double-digit EPS growth this year and lower the bottom end of the range given some of the cost savings improvements that we've seen.

And then finally, if we think about this from a capital allocation perspective, both our priorities and our execution remain unchanged. We still expect to be at 3x leverage this fiscal year. We started this fiscal year at 3.2 ended Q1 at 3.1. We expect to be at 3x. We've continued to pay our dividend, $185 million in Q1.

Through the first half of the year, we've repurchased $450 million worth of shares, an acceleration versus first half of the year. Again, free cash flow, operating cash flow doesn't change, and we continue to invest in the beer business.

William Newlands

Just for clarity, we raised the lower end.

Garth Hankinson

Raised low end. What did I say?

William Newlands

The other way around?

Garth Hankinson

Sorry about that. We raised the lower end.

Lauren Lieberman

Good guess. One question that I've had from people just kind of knowing about before sitting down this morning was the degree to which the guidance adjustment on beer revenue simply takes into account the softness you've seen in the quarter itself. Or also how are you thinking about the balance of the year? Because you've referenced that it's macro, you've referenced, right, the unemployment. So how if you have tempered your expectations for beer in the back half of the year? And sort of does it need to improve from what we're seeing from an industry standpoint or not?

William Newlands

No, I don't think it need to improve. Obviously, if you're going to make a revision, you want to make it with a revision with the expectation of what you expect the rest of the year to be. And Garth will probably go into. But if you look at many of the macro trends, the belief is that unemployment was going to stabilize, inflation is going to continue to come around. The election will be behind us, and people will understand exactly where we sit. That usually opens up people's purses a bit. So we believe this is reflective of what you would expect to see for us for the rest of the year.

Lauren Lieberman

Okay. Great. I'm going to change gears. So it's been a little bit over a year since you announced the collaboration agreement with Elliott. Could you just talk a little bit like what learnings have come from that relationship to date? And also, are you where you want to be from a corporate governance perspective, I think there was another recent change on the board. So maybe you could speak to that as well.

William Newlands

Sure. It's been a very collaborative relationship. When they first came to see us, they had a few thoughts in mind, many of which we were already doing or planned to do. So they talked to us, for instance, about adding financial expertise to our Board. That's something we felt we needed to do. And we've added 2 folks who are financial experts to our Board.

We've recently brought on our first independent chair in Chris Baldwin, which has gone very, very well. A lot of governance changes have occurred over the course of that interaction, but we're still doing more.

We've – for the first time, we have an outside group that's done a full assessment of our Board, including individual assessments of individual board members. That hasn't been done before. So we're continuing to evolve our governance approach at the Board level. And I think Elliott has been very helpful to us in the end.

Garth Hankinson

Yes. I mean the only thing that I would add on there, as Bill said, right? I mean the discussion and the relationship with Elliott has been very positive. It's with all of our large shareholders, those conversations. And again, double down on what Bill said, there are a lot of what they came to us with were things we already had in motion.

So we were – our discussions focused around runway for beer as well as the best-in-class beer margins and how do we maintain those. The steps needed to get wine experience on a trajectory where it's adding value.

And then third, our capital allocation priorities. Again, very consistent with what we've heard from other large shareholders, and we welcome those conversations with shareholders. We see that as really a dialogue. And again, welcome the feedback from everybody who's here as well.

Lauren Lieberman

Okay. Great. Okay. So let's go back to longer-term trends, beer and beverage alcohol. So beer, let's call it, until the last 2 years or so, right, down 1 to plus 1 in terms of industry volume, and now you've had more pronounced declines prior 2 years, and it seems like we're on track for that, again, industry-wise, right? So fully understanding your portfolio's relative positioning, continued share gains, the long-term opportunity. We're just kind of curious what assumptions – underlies your assumptions through fiscal '28 for beer industry volume trends?

William Newlands

Well, at the risk of being the master of the obvious, there have been a lot of changes in the beer business in the last year. I think the important part to think about is you often see and I touched on it briefly already, but you often see some moderation before an election year cycle and I think you're seeing that. And I think you're seeing it across all alcohol beverages. It's not unique to beer.

But our belief is beer has fairly consistently been in that range of sort of plus 1 to minus 1 for a number of years. I think that's likely to be roughly what you see going forward. I think the important part is that we're in a position to continue to gain share in that marketplace.

We have brands that are growing, we are putting our toe into new areas like things like Corona Non-Alcoholic or Modelo Aguas Frescas, areas that go into sort of new occasions and new situations. Pacifico continues to be a real success story. Our Chelada business is – continues to be a real success story. So our view is we're going to continue to be the share-gaining leader, you're going to continue to see a strong growth profile. And as Garth and I often joke, I'm sure most any CPG company would love to have our income statement.

Garth Hankinson

I think it's also – I mean, I know the question, Lauren, was specific to the category, but I think it's important to remind people like what are the building blocks of our outlook through 2028, particularly in our beer business, right? And as we've said, we'll deliver sort of high single digit, 7% to 9% top line growth. That's really underpinned by sort of 3 things.

We're going to get – that's going to come from distribution. We've always said that's going to be about 40% to 50% from distribution, about 20% to 40% in innovation and about 30% in demographics. If we click into those just a little bit in more detail, on distribution we laid out at our Investor Day, our plan to add 500,000 incremental points of distribution really across every region of the U.S. We've had really good success with that so far in FY '24 and FY '25, we've gotten low double-digit gains in that front and we continue on with our Shopper-First Shelf initiatives that have been very, very successful.

On innovation, the 20% to 40% is anchored in kind of what we've been able to achieve in the last 5 years, which has been about a 30% contribution from innovation. And it's important for everyone to understand that innovation for us isn't just new-to-world products, that's line extensions, flavor enhancements and that's pack size.

And then finally, on demographics, the LBA Hispanic consumer is supposed – is expected to increase about 2x per the general consumer. So that's a real tailwind for us. And the general consumer is also an opportunity for us. If you look across our portfolio, about 50% of our business comes from the general consumer broadly speaking, but if you look at a brand like Corona Extra, about 66% comes from the general consumer. So that's a real opportunity for some of the rest of – for growth for us.

So – and of that 7%, 8%, volume is going to account for sort of mid- to high single digits, and the rest comes from pricing. And we've had really good traction with our pricing, as you've seen. We've done a really nice job of being able to take enough pricing to the last couple of years, help offset some of the higher inflation in years going forward. We'll expect that to come for more of that. But we've been able to do that without impacting the momentum on the top line. So it's a really winning formula.

Lauren Lieberman

Okay. On that, you talked about that 70% of the growth is expected to come from general population. How do you balance going after that while maintaining the authenticity of the brands?

William Newlands

That's a really key point. The brands have to be authentic. And I know that sounds simple, but it's a very true statement. I think a great example is to think about the fact that we've only really advertised Modelo, even though it's the #1 beer by dollars in the country to the general market population for the last 7 years, which is a relatively small period of time when you think about it.

But part of what we've seen is the general market makeup of our Modelo business has gone from roughly 20% of the business to 45% of the business in that window of time. Take Corona as the example. That's 70% in the general market. So when you think about the possibilities for a brand like Modelo going forward, I don't want to say they're endless because that would probably be a little ridiculous, but it's massive. It's massive.

And then when you look at the two biggest share markets that we have, which is Nevada and California, it's more than twice the share we have across the rest of the country on average. So there's just tremendous runway. But your point is really true.

We stay true to what these brands stand for. We're not trying to do an IPA in Modelo. It just wouldn't be relevant or appropriate. These are Mexican heritage brands that are reflected of great product in the bottle and very refreshing. And therefore, we think there's a long runway for the – particularly for Modelo.

Lauren Lieberman

Okay. So in that vein, I mean, we do get a lot of questions about that total addressable market for Modelo, right? And we've done our own attempt to kind of in-depth work looking at assuming continued share gains in key markets and use California as that best-in-class reference point. .

So are there any markets where you see structural factors that could prevent Modelo from achieving the #1 spot? Like do demographics – how much do demographics matter in a given market? Or do you see the top share position as a viable end goal for all states?

William Newlands

Yes, I think it actually is. I mean it may not be every 1 of the 50 states, but let's use the biggest 1 to give the example. In L.A., Modelo Especial is bigger than the next 4 brands combined, combined. And we're still gaining share, and we're still growing in that market despite the fact that we've got tremendous market share. .

You then look across the country and the upside that exists in so many other markets from a share gaining perspective, remember, our household penetration on Modelo is less than Corona and that's still less than some other domestic brands. So again, a lot of opportunity.

Garth often talks about the number of distribution points that we have lined out that we covered in depth at our investor conference last November. And there's just so much opportunity for us to continue to become more important.

Last year, we were #1 in 13 markets. We're #1 now in 14 markets. Well, when you think about that, I don't think that's a big number even though we're the #1 beer in the country by dollars. So our belief is there's just tremendous runway just purely talking about Modelo irrespective of Pacifico, which I'm sure you'll ask about at some point.

Garth Hankinson

And I'll just add really quickly to that, too. I mean, as Bill referenced in response to your first question, we're growing in 45 states, right, or in the other 45 states. Those include states that you wouldn't think are traditionally fit right into the demographic of the Hispanic consumer.

So you think of some states, particularly in the Southeast where we're seeing really good growth. And that goes into how we think about marketing our brands. You see that if anybody watches college football, you'll see our presence in college football, particularly with the SEC. Though that's really meant to attract and drive demand in some of those states, again, that it would be less obvious states for us to win.

Lauren Lieberman

Okay. I do ask about Pacifico.

William Newlands

I figured you are going to.

Lauren Lieberman

I know. I always felt like it was that third leg of the stool, and it – but now it's scaled. Right now, we've gotten to where, I guess, has in the 20 million case milestone it can start to matter. So that said, do the approach needs to evolve at all, right, as the brand has gotten to more critical mass kind of order because I think it's shifted a couple of times in the last 8 or 10 years the approach to marketing Pacifico. So maybe what's gotten you to that 20 million case mark and do you need to evolve from here with it hitting that critical mass?

William Newlands

Well, I think the brand positioning is in a good spot, living life to the fullest is something that people can rally around. I think the yellow can. In the same way that the Orange — ***indiscernible*** — very well for — ***indiscernible*** — once upon a time, I would argue it's distinctive, it stands out. So brand positioning is working.

When you look at – and it's easy to say, oh, yes, but it's all the West Coast. And granted, it's now the #2 beer in Los Angeles. It's terrific. But you've got places like New Jersey and Texas and Illinois and Florida that are up anywhere between 25% and 70% depending on the individual market.

So you're seeing real penetration with new audiences, it tends to be a bit younger than the rest of our profile for some of our other brands. So we just think it has a long runway. The one thing that we've worked really hard at is to do it slowly and intelligently.

You never want to find yourself in a position where you put something into the market and they have to pull it out. That's never a great scenario. So we've been very careful as to where we put it, and it's reflective of the sheer growth profile that it's had over the last few years.

Lauren Lieberman

Okay. Corona. So Corona Extra depletions declined in the first quarter. You still expect the depletion growth this year. At the Investor Day, you spoke to low single-digit growth in the medium term for the brand. So can you just talk a little bit about what gives you the conviction on the continued growth of that brand and especially pointing out how significant it is with general market consumers already.

William Newlands

Sure, you bet. Corona skews a bit towards the east. And the East in the first part of this year had a lot of squirely times. The weather wasn't great, particularly around a number of key holiday seasons, but what I'd say is Corona continues to be important, and the family is doing well.

Familiar, as an example, is up double digits. Corona Non-Alcoholic continues to just explode in the marketplace. So the brand family and what Corona as a brand entity stands for is still very strong. And we think Corona is going to be just fine in the near term. We don't expect it to have the same growth profile that Modelo or Pacifico has, but it's still going to be just fine in that low single-digit growth profile look.

Lauren Lieberman

Okay. All right. Great. Let's shift gears a little bit because I've been really interested in the language you used at the Investor Day around transitioning from builder to operator. And we've seen real achievements on productivity. And also, you've pointed out the cost savings today, right, that are enabling you to invest more in the business than originally planned. .

But I think you've already done $260 million through the first quarter, right, of cost savings, and it's a $300 million program through fiscal '28. So rather front-loaded it would seem. And I feel like it also seems maybe fair to ask if that's kind of the low-hanging fruit and that there's more to come, right? Because through fiscal '24 we got a long way to go with only $40 million of savings.

William Newlands

I think it's fair to say that we're ahead on that agenda. We hired a Chief Procurement Officer 3 years ago, and he's done a tremendous job. A lot of it with digital tools. You've heard us talk a lot about working on the digital side of our business. And that area is a great example of where it's really brought a fair amount of our ability to do a better job really from soup to nuts logistics, procurement, you name it, that's allowing us to spend more against our business and to put more at the bottom line than what we had anticipated.

Garth Hankinson

Yes. I mean, to your question, obviously, we've gotten after it faster than expected. So the results are coming in certainly front-end loaded. That being said, we won't be done when we hit $300 million. I mean there's always going to be cost savings initiatives for us to go after. And that, obviously, is part of how we've laid out what are some of the drivers and drags of our operating margin targets going forward. But the team has taken a really holistic creative approach to this.

You've seen some of the benefits that we've gotten so far, as we've already touched on, have been out of procurement and logistics, things like going from wood pallets to plastic pallets, which is cost effective and also does away with the single use of wood pallets.

We've gone from 50 full railcars to 60 full railcars, and we're going to double stacking, again, made the cost of logistics on a per case better. Certainly, better than expected, and some of those initiatives will continue to have benefits over the next 1 or 2 fiscal years as we continue to layer in the benefits of those. So that's what we've done.

That's what we're doing from a procurement and logistics perspective. Also on procurement, as I mentioned earlier, we've just done a better job on managing contract, renegotiating contracts. But we're also taking this from builder to operators, not just on procurement and logistics, but also how we operate breweries and becoming more efficient there.

And you remember last year, we announced kind of an unlock of sort of 2.5 million, 3 million hectoliters of incremental capacity, which resulted in us in being able to take down our CapEx estimates by $1 billion, right? So we're doing a better job in that regard.

And we're also doing a better job on the modular expansion that we outlined. So we're able to layer in that incremental capacity more in line when the capacity is needed. And in the guidance, we announced today the improvement in interest is really kind of the delaying of capitalized interest that we're going to bring on that capacity more in line with when we need it.

Lauren Lieberman

Okay. Okay. Great. So I know 39% to 40% is still the right medium-term goal post for beer operating margins. But I'd love to talk a little bit more about gross margin. And specifically – so COGS inflation for this year is supposed to be high single – the last commentary was high single digits.

But the medium-term guidance is for low single digits from fiscal '25 to '28. So is '25 more challenging than you anticipated last fall? Or how should we think about bridging back to that low single-digit inflation number over the 4-year period?

Garth Hankinson

Yes. So I think it's important to note what we've said at our Investor Day versus what we do it when we're providing annual guidance. And so for – at Investor Day, we were saying, as you think about the inputs, you think about those as low single digits when you take into account inflation net of our cost savings initiatives. .

What was excluded from that at Investor Day was then depreciation, which incremental depreciation is going to be around 3.5% to 4% a year. And then the volume impact that we increase volumes. So when we laid out our guidance for the fiscal year, that included depreciation and that included the volume impact. So it wasn't just inflation.

It was total COGS going up as a result of depreciation and inflation net of our savings initiatives. And those are going to be the drivers and drags as we go forward from a top – from a gross margin improvement expectation, we're going to continue to benefit from fixed over absorption as we layer in incremental volume.

We're going to benefit from 1% to 2% pricing. We're going to benefit from our cost savings initiatives. The drags on there will be just inflation and depreciation. So that's how we get comfortable with 39% to 40%, knowing that in any year, we could be a little bit above that or a little bit below that depending on headwinds or tailwinds.

Lauren Lieberman

Okay. All right. Great. Last question before we go over to Wine and Spirits. So tariffs have been coming up again in conversations in coming to us as we approach the election. So proved to be basically a lot of noise in 2016 and 2018 without much impact to the actual business. But maybe you could talk about how you're thinking about this as a potential risk ahead.

William Newlands

Sure. I think it is important to point out that the last – because it obviously relates specifically to a Trump administration. Our business was up double digits 4 years in a row during the last 4 years of a Trump administration. So I think it's also important to recognize we work very closely with governments on both sides of the aisle.

We work with the government of Mexico on both a federal and a local level. And our biggest trading partner is Mexico. The general belief is that if there is going to be a situation related to tariffs, it's highly likely that Mexico is not the main target, it's China.

So our belief is it's a little too early to get concerned about that particular topic. Although as Garth would be happy to tell you, we have a group that is evaluating all potentialities with the what ifs, if any particular situation occurred, what we do about it, as you would expect.

Garth Hankinson

I think you hit it.

Lauren Lieberman

Okay. Okay. Great. So Wine and Spirits, didn't revise my questions after this morning, I got to figure out. But generally speaking, right? I mean, still even notwithstanding the update this morning, you stood by the strategy outlined last November.

And it sounds like the path is really about execution. It feels like an increasingly big lift given how weak the category backdrop has been. So maybe you can talk to us about kind of the path back to low single-digit top line, 2% to 4% operating profit growth over the medium term. Like how much is in your control versus the hold into industry trends?

William Newlands

Well, there's a number of things involved there. First of all, I'd say the macro environment on wine, in particular, has been very bad comparatively worse than we expected. I'll say this, I'm very glad we sold 90% of the low-end brands that we did over the last few years as we've weaned our portfolio down to a much more higher-end portfolio.

A lot of work is being done on multiple fronts. One is, we're focusing our attention on the sort of 10 to 12 brands that really matter, and we're investing more against those. We're starting to see some firm shoots against some of that work that's been done. Garth touched on it briefly a couple of minutes ago. We are starting to see some benefit of that.

We're doing a lot of cost work on the wine side, as I think we needed to do. And we would expect to see some of that start to be reflected in the back half of the year. And the – our work with our distributor partners, I think, is better than what it has been in recent years. I think that's an important piece of what we're doing. But there's no question in the macro environment, particularly on the wine side, has been more challenging than we anticipated.

Lauren Lieberman

Okay. And I guess – I mean, it sounds like the, because of the execution, right, a lot of this is going to be, by definition, gradual, like we can't really reposition a brand overnight. So how should we think about the next major milestones you're watching for, like a validation of the strategy is working because it seems, again, like it's very hard to be spotting those green shoots when the industry is doing what the industry is doing?

William Newlands

Well, you might remember, at the beginning of this year, we said it was going to take 9 to 12 months for this thing to fully kick in, in terms of all the work. Garth and I spent months at the early part of the calendar year, with our Wine and Spirits team, working out what needs to – what do we need to be doing, what the focus needs to be on and what our operating plan was going forward?

Recognizing just what you said, it doesn't turn on a dime, particularly when the macro environment is not as healthy as we'd like to see. But we are expecting to see incremental progress in the back half of this year against many of those initiatives that we put in place as we start to track to that 9- to 12-month time frame.

Garth Hankinson

Yes. I mean we're doing – just to double down on what Bill said, we are expecting to see some improvements in the second half of the year, both from cost saving initiative actions that we took in the first half of the year as well as some of the support we're doing with the tactical pricing and marketing. .

Bill mentioned that we've started to see some green shoots because you have to look at it on a bit of a market-by-market basis. You're not necessarily seeing it in the syndicated. Syndicated data quite so much just yet because every state is a little bit different as it relates to how you go about price support and when you can take pricing actions.

And so in those states, in those markets where the pricing has been in market the longest, that's where we're seeing those green shoots. We think that as that gets more fully baked across the rest of the country, we'll see those in the results.

But we're controlling the controllables, right? I mean we're taking costs out of the business. We're tactically investing in both pricing and marketing actions to support demand. Clearly, the category has got to be better, but we're executing certainly according to how we laid out at the beginning of the year.

Lauren Lieberman

Yes. Okay. Let me take an opportunity then to also ask about total alcohol consumption because it's interesting, right, right now that beer is actually – the industry is rough, but beer is gaining share, which is interesting, right, in terms of total alcohol in and of itself.

But we get asked all the time what is sort of the unanswerable like are people just drinking less, why are they drinking, is this just a temporary dynamic of younger generations in change of behavior? Does adaptogens, delta 9, like do these things matter GLP-1. What's your current view on what we're seeing? I know you've articulated the macro impact on beer specifically, but just in general, on beverage alcohol consumption trends.

William Newlands

I think you are starting to see some change in the way consumers address things. The key areas that we always talk about are flavor, betterment and premiumization. I think all of those are going to continue to play, but I'll give you a great example. 20-plus years the category that was viewed as dead on arrival was Bourbon, dead on arrival. It was like this every year. .

Well, today, you would argue it's one of the healthier categories that exist in spirits because interesting and dynamic new things were brought to the table that opened up the aperture for people to look at it in a different way. I would argue, our Corona Sunbrew opens up that same kind of window for a consumer – a new consumer to look at these products that have particularly been in this category in a slightly different way.

I would argue Modelo Aguas Frescas could do the same thing. We haven't been as successful as an industry nor have we yet, on the wine side, creating some of that thing that opens up interest. I think the important part for us is we're investing in areas that can be approachable if the consumer does change, and that is on the betterment side.

On the wine side, we've done it with Illuminate from Kim Crawford or – and we've done the same thing in our Meiomi brand. You saw it in Corona Non-Alcoholic. Nonalcoholic beer is only 3% of the total industry today, but it was 1% 5 years ago. So we're putting ourselves in a position where if there is some movement with consumers that we have an offering there to attract them if their behavior does change.

Lauren Lieberman
Okay. Great. So in our final few minutes, I just want to talk a bit about capital allocation. So you laid out plans very – capital allocation plans very clearly last fall, leverage target of 3x this year. You still have $2.6 billion left in the share buyback program at the end of the first quarter, and you've proven your willingness to respond opportunistically in the market. But over time, particularly when capital needs ease down the road, might we ever see a more programmatic approach to share repurchases?

Garth Hankinson
Yes. So I would say that this management team for the last 5 years has been pretty consistent with our capital allocation for our use and our execution. Obviously, you laid out what our capital allocation priorities are. So I'm not going to go back into those with more detail.

But I think one of the things that's underappreciated about the Constellation story right now is that inflection point in free cash flow generation as the CapEx requirements to support the growth of our Mexican beer business start to subside. That's going to give us lots of flexibility to do things like potentially do more programmatic share buybacks.

Maybe we'll revisit things like how quickly do we pay down debt? Do we adjust our dividend? Or are there other opportunities to invest in the business? So we'll continue for the balance of this fiscal year to be opportunistic in the approach on share repurchases. But certainly, as we think about those opportunities, we'll do so, whether that is investing in the business, share repurchases, dividend, debt pay down. We'll do so in a manner that's very financially disciplined and in a manner that delivers the maximum amount of shareholder value.

Lauren Lieberman

Okay. Perfect. All right. We're going to wrap it there. Bill, Garth, thank you so much for being here. .

William Newlands

Thanks for having us.