Constellation Brands Inc, Q2 2025, Earnings Call 2024-10-03

Presentation

Operator

Hello and welcome to the Constellation Brands Q2 Fiscal Year 2025 Earnings Call. — ***Operator Instructions*** — As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Senior Vice President, Investor Relations, Joe Suarez. Please go ahead, Joe.

Joseph Suarez

Thank you, Kevin. Good morning all and welcome to Constellation Brands Q2 Fiscal '25 Conference Call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO.

As a reminder, reconciliations between the most directly comparable GAAP measures and any non-GAAP financial measures discussed on this call are included in our news release or otherwise available on the company's website at www.cbrands.com. Please refer to the news release and Constellation's SEC filings for risk factors which may impact forward-looking statements made on this call.

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

And now, here's Bill.

William Newlands

Thanks, Joe and welcome to our Q2 fiscal '25 earnings call. As usual, I'd like to start with a few key highlights for the quarter.

First, while the current macroeconomic backdrop weighed on demand for beverage alcohol and more broadly, across consumer packaged goods, we continue to deliver strong performance in the marketplace driven by our consumer-centric strategy and thoughtful approach to brand building. At a total company level, in Circana tracked channels over the 12 weeks ending September 1, we held the #1 spot for both dollar sales growth and share gains within all beverage alcohol. And more notably, we once again achieved dollar sales growth outpacing the total CPG sector as we continued to build on our track record of over 1 decade as a CPG growth leader.

Second, our Beer business remained the clear winner across the total beverage industry, having significantly outperformed in dollar sales growth and, of course, maintained its leading share-gaining position in the U.S. beer category. Third and continuing with our Beer business, we delivered another quarter of significant margin expansion, supported by disciplined operational and financial management. Importantly, our cost savings and operational efficiency initiatives are delivering significant incremental benefits for our Beer business beyond what we had anticipated at the start of fiscal '25, which are now enabling incremental marketing investments in our largest beer brands as of Q3.

Fourth, our relentless focus on winning in the marketplace, delivering top-tier growth and driving efficiencies supported another quarter of double-digit increase in comparable EPS in line with our full year outlook.

Our strong earnings performance and, in turn, significant cash generation enabled us to achieve a pivotal milestone of our capital allocation priorities, having reached a 2.9 net leverage ratio on a comparable basis in Q2, slightly below our approximate 3x target.

And equally important, consistent with those same priorities, we also returned nearly $250 million of cash to shareholders through share repurchases in Q2, bringing our total year-to-date cash returns through repurchases to approximately $450 million, while continuing to pay our dividend and advance our brewery investments in our Beer business.

All in, as we noted a few weeks ago, while ongoing macroeconomic headwinds, particularly rising employment, have led to a recent deceleration in the rate of growth of consumer demand for our products, we remain on track to deliver another solid fiscal year and continue to create value for our shareholders.

With that, let's turn more fully to our beer business performance. During the second quarter of fiscal '25, our Beer business continued to deliver strong financial performance with net sales and operating income growth of nearly 6% and 13%, respectively. As noted earlier, these increases were primarily supported by solid volume growth and carryover pricing from last fall, as well as disciplined cost management and operational efficiencies. Our beer business grew shipments by 4.6% in Q2, while depletions were up 2.4%, which includes the impact of 1 less selling day. It is important to reinforce that the Q2 performance of our Beer business was accounted for in the updated expectations we shared for fiscal '25, 4 weeks ago.

Now honing in on the performance of our largest brands. Modelo Especial grew depletions by nearly 5% and upheld its position as the top share gainer, further extending its lead as the #1 beer brand in U.S. tracked channels. Corona Extra depletions declined approximately 3%. However, it remained a top 5 beer brand in dollar sales in the U.S. and continued to gain dollar share in the category. Pacifico delivered another quarter of remarkable depletion growth of nearly 23% and remained the #4 dollar share gainer across the total beer category. Our Modelo Chelada brands delivered an increase of approximately 2% in depletions and our Limón y Sal flavor remained a top 15 overall dollar share gainer in the category.

As noted earlier, our Beer business also maintained the momentum of its significant operating leverage gains, driving 2.7 percentage points of operating margin expansion year-over-year. As mentioned earlier, we are pleased to be deploying incremental marketing investments across our largest beer brands in the second half of fiscal '25 as our cost savings and efficiency initiatives have delivered results above our initial expectations. Looking ahead more broadly, consistent with our recent outlook update, we continue to expect our Beer business to deliver net sales growth of 6% to 8%, operating income growth of 11% to 12% and an operating margin of approximately 39% in fiscal '25.

Moving on to Wine and Spirits. As noted a few weeks ago in our full year guidance update, we continue to face incremental category headwinds in our Wine and Spirits business, particularly in the lower-priced segments. This affected both the performance of Wine and Spirits in this latest quarter and our fiscal '25 outlook for that business. In Q2, the impact of these category headwinds largely drove Wine and Spirits shipments down 9.8% year-on-year, while in turn was the primary driver of the respective 12% and 13% declines in net sales and operating income for that business.

Against that backdrop, the business remains focused on continuing to advance the operational and commercial execution initiatives identified at the end of our last fiscal year to improve the performance of our largest Wine and Spirits brands. Encouragingly, we saw some green shoots in Q2 across our largest higher-end wine brands, Kim Crawford, Meiomi, The Prisoner, as tactical pricing and marketing support actions we are taking in select markets began to drive better consumer takeaway trends. So we plan to continue these actions through the remainder of the year to drive further improvements in this select group of our most scaled higher-end offerings, which ultimately underpins the sequential improvement we expect in our Wine and Spirits business over the second half of fiscal '25 for our updated outlook.

Also notably, our Craft Spirits portfolio, albeit smaller in scale continues to be a positive driver for the business, delivering strong depletion volume growth as well as high single-digit dollar sales growth in Circana U.S. tracked channels, significantly outperforming the low single-digit growth rate of the higher-end spirits segment. Looking ahead for our recent updated fiscal '25 outlook, we expect the Wine and Spirits business to ultimately deliver for the full year net sales and operating income declines of 4% to 6% and 16% to 18%, respectively.

Lastly, we usually take this opportunity in our Q2 call to bring your attention to the upcoming release of our annual ESG impact report every October. That said, going forward, we'll be publishing this report under the same time line as our other fiscal year-end materials. This shift in timing will help ensure better alignment between our most recent and relevant full financial year updates and these related to our efforts to address pressing environmental and societal needs that are important to our business and our stakeholders ahead of our annual meeting. We look forward to sharing our progress and updated targets in a few quarters.

So in closing, while our sector is facing less favorable consumer demand due to macroeconomic headwinds, we delivered another quarter of strong financial results underpinned by the continued solid net sales growth and significant margin expansion of our Beer business, ultimately achieving our second quarter double-digit comparable EPS growth in line with our full fiscal year expectations. In addition, we continue to build on our leadership position within consumer packaged goods and the total beverage industry, outperforming in dollar sales growth across Circana tracked channels. And we remain steadfast in delivering against our disciplined and balanced capital allocation priorities, achieving a 2x net leverage ratio on a comparable basis, slightly below our stated approximately 3x target, while also returning nearly $250 million to shareholders through share repurchases in Q2, as well as continuing to pay our dividend and advance our brewery capacity investments.

And with that, I will turn the call over to Garth, who will provide more details on our financial results and outlook. Garth?

Garth Hankinson

Thank you, Bill and good morning, everyone. As usual, my discussion of our Q2 fiscal ’25 performance will focus mainly on our comparable enterprise results accompanied by business segment details. Let’s get started with our enterprise results.

For the quarter, enterprise net sales grew 3%, while enterprise operating income decreased 226% on a reported basis and increased 13% on a comparable basis. The increases in enterprise net sales and enterprise comparable operating income were driven by strong results from our Beer business, which were partially offset by ongoing category headwinds affecting the performance of our Wine and Spirits business, both of which I will address in more detail shortly. The decline in reported enterprise operating income reflects a noncash goodwill impairment loss for the Wine and Spirits business of $2.25 billion.

As noted in our updated guidance last month, we now expect enterprise net sales to grow between 4% to 6% for fiscal ’25 and for enterprise comparable operating income to grow 8% to 9% for the full year. At an enterprise level, we remain confident in our ability to deliver against our initial double-digit comparable EPS growth expectations as demonstrated by our decision to raise the lower end of our full year comparable EPS outlook during our recent guidance update, with that range now set at $13.60 to $13.80.

Now I’ll turn to a more detailed review of our Q2 fiscal ’25 results. To start, our Beer business net sales grew by 6%, representing an uplift of $137.5 million. This was driven by beer shipment volume growth of 4.6% and favorable pricing which added $50.2 million to the overall net beer net sales increase. For the full fiscal year, we continue to expect pricing to account for 1% to 2% of our net sales growth, reflecting both the muted pricing from the first half of this year, which was driven by lapping outsized pricing from last year, as well as targeted price actions we are taking in the second half of fiscal ’25.

Beer depletions grew 2.4%, marking our 58th consecutive quarter of growth. As a reminder, in the second quarter, we had 1 less selling day and the impact of a selling day variance to our volume growth performance has historically been between 0.5 to 1.5 percentage points, depending on the day of week lost or gained. Also, as Bill noted, beer depletions for the quarter were impacted by the recent challenging macroeconomic backdrop where rising unemployment rates have impacted consumer behavior. That said, we are pleased to have had our Beer business once again outperform the category and sector in dollar sales in the second quarter and in particular, to have once more won the Fourth of July holiday as the top share gaining supplier in Circana dollar sales, growing 5.1% and gaining 1.2 share points of total beer and 1.3 share points of high-end beer.

Our on-premise depletions grew 5% and accounted for approximately 11% of our total volumes. Corona Extra remains the #1 packaged beer by dollar sales in the on-premise, while Modelo Especial continues to hold its #4 beer position on draft in the U.S., up from the #5 spot last fiscal year. For the second quarter, beer shipment growth outpaced depletion growth as distributors proactively managed inventory levels to supply the higher-volume summer season. For the full fiscal year, we expect absolute shipment and depletion volumes to be closely aligned with each other and for the quarterly share of full year volumes across both of those metrics to be in line with those of fiscal ’24.

As we look ahead to the balance of the fiscal year for the Beer business, I’d like to take a moment to reiterate our updated outlook announced last month. Beer net sales are now expected to grow between 6% to 8% for fiscal ’25, reflecting the incremental macroeconomic headwinds we have seen this year affecting the consumer as noted earlier. We believe these headwinds are transitory in nature. And while our consumers are cautious, they also remain very loyal to our brand as they seek more value-oriented packs and channels to manage their spend in this environment.

We are focused on managing the levers that we can control and continue to advance our cost savings and efficiency initiatives that allow us to accelerate incremental marketing investments toward our Beer business to drive top line growth. We remain confident in our overall growth profile, which again continues to outperform our sector and industry as we pursue further incremental points of distribution in the U.S. and push forward with our focused and disciplined innovation agenda, while building on the broader demographic tailwinds from our loyal Hispanic consumers.

I’ll now turn to beer operating income and margins. The beer segment grew operating income by 13% and had a 270 basis point increase in operating margin to 42.6%. The strong performance in our beer operating income is largely the result of an over $65 million benefit from our ongoing cost savings and efficiency initiatives, partially offsetting an increase in COGS of 4%, excluding these savings but inclusive of the impact of volume and foreign currency. As a reminder, approximately 25% of our total COGS are exposed to the Mexican peso and we are approximately 90% hedged against that exposure for the fiscal year.

For the remainder of fiscal ’25, we anticipate incremental COGS relative to net sales due to lower fixed cost absorption from normal volume seasonality. That said, it is important to recall that in Q4, we will lap the VAT write-off from the same period last year, which will provide some favorability year-over-year but will not offset the sequential impact of lesser fixed cost absorption due to seasonally lower volumes. Marketing expense as a percentage of net sales was 7.6% for the quarter. For fiscal ’25, we are still on track to be in line with our full year expectation of approximately 8.5% as we continue to ramp up investments to support our core brands and during the NFL and college football season, particularly in Q3.

Other SG&A expense was 3.8% as a percentage of net sales. And we expect this ratio to increase in the second half of the year, largely due to lower volumes yielding less cost absorption. This is in line with our expectation and we continue to anticipate our full year SG&A expense to be approximately 5% of net sales. Overall, for beer operating margins, we continue to expect to be at approximately 39% for fiscal ’25. As just noted, we expect lower fixed cost absorption and incremental marketing investments to drive sequentially lower operating margins in the second half.

Moving on to the Wine and Spirits business. Net sales for the segment declined 12% in the second quarter, driven largely by a 9.8% decrease in shipments. The decline was largely driven by ongoing challenges in the wine category, particularly in the U.S. wholesale marketplace due to both weaker consumer demand and retailer inventory destocking. Accordingly, we remain focused on the ongoing tactical pricing and marketing actions shared at the beginning of this fiscal year to help drive net sales improvement in the performance of our largest brands. As Bill noted, we are seeing some encouraging early results from these actions. And as a reminder, we continue to see the back half of the fiscal year as the higher volume period for our Wine and Spirits business due to historical seasonality related to vintage releases from our higher-end brands and incremental demand over the holiday season, as well as incremental benefits from the initiatives just referenced.

Operating income for Wine and Spirits business remained relatively flat with a decline of approximately $10 million, resulting in an 18.1% operating margin. Altogether, the decline in operating income and relatively stable margin performance were primarily impacted by unfavorable product mix and overall lower shipment volumes, partially offset by higher contractual distributor payments. Our marketing expense as a percent of net sales was 9.3%, which is slightly above our medium-term targets, as we continue to make near-term investments in our largest brands to help support our top line. And SG&A as a percentage of net sales was 14.8%, coming in line with our medium-term outlook.

Looking forward to the remainder of the year, for the Wine and Spirits business, we expect operating margins to benefit from mix benefits due to the previously noted seasonally driven increase in volumes for our higher-end brands, incremental volume benefits from the commercial execution initiatives also previously referenced to further support demand for our core brands and operational efficiency and cost savings actions similar to those being executed in our Beer business. As we face ongoing operating deleverage due to larger top line headwinds, we anticipate a full year 16% to 18% decline in operating income for our recently revised fiscal ’25 guidance.

Capping off the rest of the P&L. Corporate expense for the quarter was approximately $58 million, reflecting a year-over-year decrease of $8 million or 13%, driven by a one-off real estate tax benefit in the second quarter. In the back half of fiscal ’25, we expect a marginal increase mainly due to the increase in compensation and benefits and digital capabilities investments. And for the full year, we continue to expect $260 million. Interest expense for the quarter was $104 million, a 6% decrease from the prior year due to lower average borrowings and an increase in capitalized interest from our investments in our breweries. As noted in our previously updated guidance, interest expense for the fiscal year is now expected to be approximately $430 million as we see favorability from lower cost of borrowing and adjustments related to capitalized interest. Our comparable effective tax rate was 18.7%, compared to 17.8% for the corresponding quarter last year. And we continue to expect our full year tax rate to be 18.5%.

And finally, free cash flow, which we define as net cash provided by operating activities less capital expenditures. For the first half of fiscal ’25, we generated free cash flow of $1.2 billion, a 12% increase from the prior period. As a reminder, we expect free cash flow to be between $1.4 billion and $1.5 billion for the fiscal year as we reached the high watermark year of capital expenditures in our Beer business medium-term outlook provided at our Investor Day. Beyond fiscal ’25, we continue to expect an uplift in free cash flow generation, particularly as we complete the initial phase of our new Veracruz brewery by late fiscal ’26 or early fiscal ’27.

To conclude, we continued to make solid progress in delivering growth from our strong portfolio of brands, margin expansion from our relentless pursuit of operational efficiency and cost discipline and against our disciplined and balanced capital allocation priorities. That said, in light of constantly evolving macroeconomic and geopolitical dynamics, we continue to closely monitor for any signs of ongoing pressures on the consumer and we plan to continue to take proactive actions to mitigate these possible headwinds and maintain the momentum of our brands with the consumers, such as reinvesting incremental cost savings into high-return marketing opportunities and advancing our price pack architecture efforts.

And as we’ve always done, we will continue to provide timely updates to our stakeholders as we develop any additional relevant insights on our consumers or should there be any material changes to our expectations, both favorable or unfavorable. As I wrap up, I want to thank all of you for your support as we continue to execute against our stated initiatives.

And with that, Bill and I are happy to take your questions. Thank you.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question is coming from Kaumil Gajrawala from Jefferies.

Kaumil Gajrawala

Congrats you hit your leverage target. Can you maybe talk about moving forward, now that you're there, if your – what the appetite is for more aggressively repurchasing shares, especially as, using your words, you hit sort of the high watermark on CapEx? And then just on, maybe procedurally, how often does the Board meet to have those discussions? Is it ongoing or just kind of once a year?

Garth Hankinson

Thanks, Kaumil. And as you suggested and as were in Bill's and my remarks, we did continue to deliver against our disciplined allocation priorities as we've done for the last year – or last 5 years in Q2. As you noted, in Q2, we had an important milestone, which is, we got at our target or slightly below our target. And throughout the first half of the year, we've been fairly opportunistic as we've repurchased shares. In fact, we accelerated our repurchase activity in Q2, delivering $249 million in Q2 after delivering – or $200 million in Q1, for a total of nearly $450 million through the first half of the year.

We have $2.2 billion of authorization left under the current authorization provided by the Board, which will allow us to continue to be opportunistic as we move into the second half of the year. And per your sort of procedural or administrative question, we typically get additional authorizations and/or announce any incremental programs or commitments in the back half of our fiscal year.

Operator

Next question is coming from Dara Mohsenian from Morgan Stanley.

Dara Mohsenian

So just on beer depletions in the quarter, a bit softer result than we've been used to from you guys looking back over the past few years. Just can you give us a bit of postmortem there? Obviously, you talked about the macro factors. Is that really the key factor in your mind? Or are there other pressure points? And maybe parse out trends in different key consumer segments for you to give us some insight there. And then the pickup so far in September, that's obvious in the scanner data, just put that in context and how that sort of informs your forward view from here around depletions in this macro environment?

William Newlands

Sure. Let me tackle that one. First of all, there were 2 or 3 factors that were critically important in Q2. One is there was somewhat higher unemployment rate, particularly in the Hispanic market. And that affects most of our top 5 states, which represent roughly 50% of our volume. I think, secondly and if you look historically, this often happens, whenever there is a scenario where you have a federal election that is close, you often have people pull back. You see it across the whole consumer sector and that is consistent as well.

I think a couple of things are important to recognize. One is demand. Our buy rate continues to be very strong. On a 52-week basis, we are up mid-single digits and on – with the Hispanic consumer it is slightly ahead of that. You point out, I think it's obvious, in IRI Circana data, the 4-week trend is better than both the 12-week trend and the 26-week trend. I think this is consistent with what we've said all along, which is, we don't see this as any radical change in the long-term perspective on the business. It is purely a near-term issue. I think the fact that the Fed has reduced rates is going to help to manage the unemployment issue and stimulate consumption. So we remain as optimistic as we have been about our expectations for the back half of the year.

Operator

Next question is coming from Bonnie Herzog from Goldman Sachs.

Bonnie Herzog

I had a question on your increased space and distribution gains. I know you've captured a lot of space in the spring reset. So I guess curious to hear if the lift from that has met your expectations. And then also, any color on potential shelf space gains you got or maybe getting this fall? And if so, could you maybe quantify this and really share with us how that factors into your full year beer top line growth guidance, which essentially implies top line growth should accelerate a little bit in the second half versus the first half.

William Newlands

Well, obviously, any time you pick up shelf – and just to remind everyone on the call, we had double-digit share gains here in the spring resets, that always is beneficial. And it's particularly beneficial in the areas where we are still radically improving our share and increasing our awareness levels. I think this is going to be doubled down, Bonnie, on the fact that we are spending a significant amount of increased marketing investment against our beer brands because of the strong cost and efficiency initiatives that we've been able to achieve above and beyond what we expected at the beginning of the year.

So we expect that, therefore, those shelf initiatives that have occurred in the early part of the year, combined with our marketing efforts to double down at a time when many in the consumer sector having to pull back will be highly beneficial to our results as you continue through the rest of this year.

Operator

Next question is coming from Nik Modi from RBC Capital Markets.

Nik Modi

Can you hear me?

William Newlands

Can hear now. All good, Nik.

Nik Modi

Okay. Great. Yes. So if you could just talk about Corona. It was a little weakish in the quarter. Is this a function of just Modelo really doing better and maybe cannibalizing, maybe Pacifico? Just any thoughts around that would be helpful.

William Newlands

Yes. Corona was slightly softer than we expected it might be in Q2. But as we noted, there were some, again, macro factors. Corona is a little overweighted to the East Coast. There were some challenging times during that window – during the second quarter for many of the Eastern markets. With that said, there's a lot of excitement around Corona as well. We are already seeing a pickup, as you've seen in the IRI takeout data, Corona has, much like our overall business, has looked much better on a 4-week basis than it did in the prior window of time. We're very excited about the impending launch of Corona Sunbrew, which has done very well in consumer testing in the Northeast here during this window of time.

So we continue to say that Corona is going to be slightly up for the year. We still think that's probably where that will land. And Corona is going to be one of the big benefitees in the increase in the marketing spend that we have in the back half of the year because of our strong cost efficiency initiatives. So I think Corona is going to be just fine as we continue through the remainder of the year.

Operator

Next question is coming from Andrea Teixeira from JPMorgan.

Andrea Teixeira

It seems like, obviously, beer volumes picked up in the last few weeks, as you mentioned. I was hoping to see if you can comment a little bit on how to expect the beer depletions against consumption as we unfold. Of course, you have an extra day in the fourth quarter, if I believe that's correct. But you also have – you have easier comps now in the third quarter but tougher comps in the fourth quarter. So how we should be thinking about the cadence of beer shipments and depletions as we move forward?

William Newlands

Yes. I think there's going to be another number of things that work to our advantage as the year progresses. One is and you already pointed it out, there's been incremental change that you've seen in the recent weeks. We do not see it – this as a structural change, as we've said many times, a number of things are going to be working better as we go forward. The fact that the Fed action to reduce rates, I think, is going to be a big help. I think the fact that we expect Hispanic unemployment to come back in line and obviously, the resolution of the election will occur here in the next several weeks.

So the other thing I'd point out and we've said this and I'm sure Joe has said this when you've spoken to him directly, beer depletes and scanner results have tended to be right on top of one another recently, after there having been some fairly broad differentiation amongst those. So I think that begins to be a little more consistent as you go forward through the rest of the year. Based on our assessment, the sell days are the same in both Q3 and Q4. We don't expect any impact of that. Just a reminder for everybody, Q2, there was 1 less selling day and in our judgment, that probably impacted somewhere toward the upper end of the range that Garth mentioned during his conversation.

Operator

Next question is coming from Peter Grom from UBS.

Peter Grom

Maybe just 2 quick follow-ups. Just – I just want to follow up just in the context of what we've seen year-to-date with shipments coming in ahead of depletions and the expectation that they're going to be aligned for the year, how should we be thinking about the timing of that reversal? Would that be largely in 3Q or spread evenly in the back half of the year? And then just thinking about the full year, obviously, you're kind of squarely at the midpoint of beer sales guidance. But with shipment timing benefits expected to reverse a bit, should we kind of view the high end of the beer top line range as aspirational? Or are there other key drivers or offsets that could result in stronger growth in the back half?

Garth Hankinson

Thanks, Peter. In terms of the sort of quarterly cadence, the shipments and depletions. As we noted during my opening remarks, we expect the quarterly share of annual shipments and depletions to be in line with where they were in fiscal '24. And as noted and as you noted, Q2 shipments surpassed depletions as distributors built inventory for the peak season.

In Q3, the shipment share will be lower than the depletion share due to maintenance activities. And this has historically resulted in our shipment growth being below depletion growth. So you will see some of that reversal that you referenced, in Q3. And then in Q4, both the share of the full year for both of those would tend to normalize just as we saw last year. So net-net, as you indicated, we expect, on a full year basis, shipments and depletions to be largely in line with one another.

William Newlands

And I would say, I would not necessarily agree with your aspirational comment. What we try to do with our range, is provide a range that gives us, if things go positively, we would expect to be to the upper end of the range. And if things are a bit more challenging for any reason, it might be the lower end of the range. That's why we give it a range. So I would not characterize it in the way you asked it.

Operator

Next question is coming from Michael Lavery from Piper Sandler.

Michael Lavery

I was hoping you could unpack some of the marketing color a little bit. You talked about some of the incremental spending. But then I think you also reiterated the 8.5% spend for the full year for beer. So maybe can you just help us understand what's new or what's changed and how we should – what we should expect to see?

William Newlands

Yes. What's new and what's changed is, we've decided to put a significant amount of additional investment against our brands. Corona, Modelo Chelada, Pacifico will all benefit from some of that increased spend. And that's already started. You may have noticed against the football schedule that you kind of can't miss our brands if you happen to watch any football, whether it be college football or National Football League. So we're going to continue to do that because of the tremendous work that's been done around cost and operational efficiencies. And all of our critical brands are going to benefit from the uplift that we will have in the back half of the year.

And I think it's important to point out. The reason we can do that is because of the growth of our business and the cost savings initiative. This is at a time when many, many other consumer businesses are challenged and wouldn't be able to do this. I think this is a great opportunity for our business in the back half of the year to double down on our approach to going after the consumer and providing them with outstanding opportunities to consume our products.

Operator

Next question is coming from Filippo Falorni from Citi.

Filippo Falorni

I wanted to ask on beer gross margins. That's been an area of upside, surprise versus our estimates. Clearly, you talked about the cost savings coming in better and driving the opportunity to invest more behind the brand. How should we think about those savings in the second half of the year, and maybe other drivers, both from a commodity and foreign exchange standpoint? You mentioned the peso, you're 90% hedged this year. Should we think maybe some favorability on the peso in Q4 and maybe into fiscal '26? And then on the commodity side, maybe any update on the commodity headwind that you're expecting.

Garth Hankinson

Yes. Well, thank you for the question. And as you noted, we've made very good progress against our cost savings and efficiency initiatives. And we've – at this point, we've really hit that $300 million target that we laid out at our Investor Day last year. Obviously, that doesn't mean we'll stop there. As we go forward, we'll continue to identify areas of opportunity to take costs out of the business, become more efficient, as we always have done. But those – the acceleration of the achievement against those has helped lead to the margin profile that we announced today.

As we look towards the second half of the year, we will continue to benefit from the cost savings that we generated through the first half of the year. That being said, in the second half of the year, in the Beer business, we typically see about 45% of our volume, so the normal cadence. So we will have less fixed cost absorption in the second half of the year. Again, typical in what we'd see in the back half of every sort of normal year.

And then as we said in the opening remarks today, we are spending more on as a percent of net sales and marketing in the second half to support the growth of the business, inclusive of the incremental marketing expenditure that Bill just spoke to here a moment ago. And that's why you'll see some – you'll see the margin – you'll see the margin be a little bit lower in the second half of the year. Importantly, on that marketing, you'll see the biggest impact of that in Q3.

Operator

Next question is coming from Robert Moskow from TD Cowen.

Robert Moskow

I wanted to ask about Wine and Spirits. The marketing plans that you had this year, it looks like it's been slow to materialize, although you did mention some green shoots. And I wanted to know if the plan going forward also includes more acquisitions. You had Sea Smoke acquisition earlier this year. Do you think that you need to make more acquisitions of up-and-coming brands like this in order to truly turn around the business?

William Newlands

Yes. Thanks for the question. So let me remind you what Garth and I said at the beginning of the fiscal year, that a lot of the work that was put in place was going to take us 9 to 12 months to fully play out. And as we said on today's call, we expect sequential improvement in the Wine and Spirits business in the back half of the year.

The answer to your question, no, I don't perceive us to be acquiring additional properties at this point in time in our – particularly on the wine side of our business. Frankly, our focus right now is on improving the operational performance of that business. And all the time, energy and efforts are being put against seeing that operational improvement play out in the back half of the year, including engaging more directly and more often with our distributor partners as part of that.

As we've said and I'll just reiterate one more time, we do expect to see sequential improvement in the back half of the year based on all the work that's been put in on the first half of the year to see that coming along. Noting the point about green shoots, we are starting to see some of that result. We look forward to seeing more of it in the back half.

Operator

Our final question today is coming from Bill Kirk from ROTH Capital Partners.

William Kirk

I have another one on Wine and Spirits. At fiscal year-end, the fair value was still estimated, I think, in the 10-K at about $3 billion. The impairment takes it down to like $500 million. So I guess why the dramatic change in such short time? Why is $500 million the right number when it's generating $400 million in EBITDA and there's some green shoots out there? And then finally, like does the impairment give you any flexibility to do something strategically with those assets?

Garth Hankinson

Well, thanks for the question, Bill. I would say that the amount that remains on the balance sheet is – it's fairly formulaic as you go through what you think the future business will look like, there's a number of assumptions that will go into that. And so it's – I think it's important to note that it's noncash as well. I wouldn't read anything too much into it other than that. And I don't know that it really has any impact other than it was an accounting requirement for us to take – it doesn't really change the strategic outlook for the business.

Operator

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

William Newlands

Great. Thank you, operator and thank you all again for joining today's call. We're very pleased with our solid performance in Q2 of fiscal '25. At a total company level, we once again outpaced the total CPG sector in dollar sales growth across Circana tracked channels and delivered another quarter of double-digit comparable EPS growth in line with our full year outlook and achieved our approximate 3x net leverage ratio, while returning another $250 million of cash to shareholders via share repurchases, now totaling nearly $450 million fiscal year-to-date.

In our Beer business, we continued to outperform the total beverage industry in dollar sales growth, maintaining our leading share gainer position in the U.S. beer market, delivering our 58th consecutive quarter of depletion growth and sustained the momentum of margin expansion in the Beer business through our cost savings and operational efficiency initiatives. And in our Wine and Spirits business, while we continued to face challenging market dynamics in Q2, we expect sequential improvements in Q3 and Q4 as we make further progress on our commercial and operational execution initiatives launched at the beginning of this fiscal year.

In closing, as our next earnings call is not until January, I'd like to wish everyone a happy holiday season and hope you will enjoy your celebrations with some of our fantastic products. Thanks again for joining today's call.

Operator

Thank you. That does conclude today's teleconference webcast. You may disconnect your line at this time. And have a wonderful day. We thank you for your participation today.