Constellation Brands Inc, Q4 2021, Earnings Call 2021-04-07

Presentation

Operator

Hello and welcome to the Constellation Brands Q4 Fiscal Year 2021 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode. Following the prepared remarks, the call will be open for your questions. Instructions will be given at that time. I would now turn the call over to Patty Yahn-Urlaub, Senior Vice President of Investor Relations. You may begin.

Patty Yahn-Urlaub

Thanks, Joanna. Good morning and welcome to Constellation's year-end fiscal '21 conference call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO. As a reminder, reconciliations between the most directly comparable GAAP measure and any non-GAAP financial measures discussed on this call are included in our news release or otherwise available on the company's website at www.cbrands.com. Please refer to the news release and Constellation's SEC filings for risk factors, which may impact forward-looking statements we make on this call. Before turning the call over to Bill, similar to prior quarters, I would like to ask that we limit everyone to one question per person, which will help us to end our call on time. Thanks in advance, and now here's Bill.

William Newlands

Thank you, Patty. Good morning and welcome to our year-end call. It's now been a little more than a year since the onset of the pandemic and for many it's been one of the most years in recent memory. At this time last year, we outlined our philosophy for managing the business and navigating through this period of uncertainty. We committed to making decisions that prioritize the physical and economic safety, health and well-being of our employees. We committed to remain in consumer obsessed, relentlessly focused on doing all we can to meet consumer needs. We pledged to continue managing our business with discipline ensuring appropriate balance between short-term needs and positioning Constellation for sustainable long-term success and we pledged to continue making decisions aligned with our long-term strategic vision. This is what best of class companies do in periods of uncertainty and I'm extremely proud to say that is exactly what our team delivered over the course of the physical year and then some. Working together with our distributor and retail partners, we overcame numerous headwinds posed by the pandemic to achieve strong earnings growth and record free cash flow, while significantly reducing debt. This strong performance was led by our beer business, which delivered double-digit operating income and organic net sales growth for the fiscal year. Looking forward, we not only have an exciting innovation lineup for the coming year, but we expect our core portfolio to generate robust growth well into the foreseeable future, and therefore have plans in place to execute our next increment of capacity expansion in Mexico. Our Wine and Spirits premiumization strategy gained significant traction during the fiscal year and the divestiture of several lower end wine brands positioned this business for enhanced growth and profitability going forward. In addition to the strong performance of our business units, our company also stepped up to help industry partners and communities impacted by COVID and natural disasters and to lend our voice and support in combating social injustice in the U.S. This commitment continues through our additional 1.75 million contribution to the National Restaurants Associations Education Foundation, announced earlier this week to support on premise recovery efforts, as well as our recent 10 million contribution to the Clear Vision Fund, designed to invest in minority-owned businesses, primarily those operating in underserved black and Latinx communities and through our most recent efforts to address the disturbing trend of violence against people of Asian descent across the country. In this regard, let me once again extend our deepest sympathies to victims of these deplorable acts and our continued support of members of the Asian community in this difficult time. Our strong business performance coupled with learnings from the past year and planned investments to enable growth, along with our continued commitment to making a positive impact on the world around us positions Constellation for continued success in fiscal '22 and beyond. Now, let's move to a more detailed discussion of our results and our plans for this year. Fiscal '21 marked the 11th consecutive year of growth for our beer business and reinforced our leadership position in the high-end of the U.S. beer market. We drove exceptional performance across our beer portfolio, led by our Casa Modelo brand family, including Modelo Especial, Modelo Negra and Modelo Chelada, which remains one of the biggest forces in the U.S. beer industry, delivering more than 13 million cases of growth to the beer category last year. Modelo Especial achieved yet another year of double-digit growth and now stands as the number three selling beer in the U.S. in dollar sales with more than 145 million cases sold last year, the only imported beer to ever surpass 10 million barrels in volume. Modelo Negra continues to be the number one dark beer in the U.S. category. While Modelo Chelada once again achieved double-digit growth and remains the number one Chelada brand in IRI channels. The Modelo brand family is on — ***indiscernible*** — but we're far from done. We have a tremendous amount of momentum with Casa Modelo and we continue to have huge growth opportunities in front of us. Our core Hispanic drinker remains the foundation of our business representing more than half of our volume, yet we're still growing volume, penetration and by rate with them. We're also making great progress with a non Hispanic consumer, where we've grown penetration by 25% over the last two years. And while we continue to grow simple distribution, our effective distribution levels remain below industry leaders. All this represents a massive opportunity to continue our momentum and double-digit growth for this brand family well into the future. During fiscal '22, we will continue to focus on making Modelo more top of mind with all consumers as we execute more high profile activations to further engage our drinkers and expand portfolio options to appeal to new consumers and unlock new occasions. These efforts will be supported by a 50% increase in digital, social and ecommerce media. Modelo will once again be an official sponsor of the Gold Cup soccer tournament, and will be a major advertiser for the brand throughout the high profile 2021 Summer Olympic Games. We will also be delivering high profile activations, to our biggest sponsorship as the official beer of the UFC. UFC's increasing popularity is allowing us to reach more young multicultural drinkers than ever. This past year, UFC reached over 41 million viewers on TV, grew their social following by 70% and became the number two largest sports property on YouTube. Modelo Chelada has been an extremely successful platform for us as well and in fiscal '22, we will take our next step on the path to growth by launching our newest flavor Modelo Chelada Piña Picante. Beyond Chelada's, we also have an opportunity to expand into the rapidly growing consumer trend of betterment by launching Modelo Cantarito — ***indiscernible*** —, a refreshing better for you lighter lager made with a hint of real grapefruit, orange and lime juice. With only 100 calories it delivers lower calorie beer, but with a flavorful and authentic experience, as it was inspired by the traditional Cantarito cocktail from Jalisco Mexico. And to top it off, consumers love the idea. This is the highest scoring Modelo new product concept we've ever had. As you can see, Modelo is poised for another great year in fiscal '22. Moving on to our next powerful brand family, the Corona brand family is thriving and embracing a new year full of possibilities. Our flagship Corona Extra brand remains the number six U.S. beer brand, growing IRI dollar sales by 11% and surpassing 2 billion in retail sales last year. In fiscal '22, you'll see a refresh Corona, which will be enabled through a master brand strategy where Corona equities unite the entire family and each sub-brand delivers unique benefits to play to distinct occasions, consumers and motivations while staying true to Corona's DNA. We have a full year of master brand retail initiatives on-premise programs ready to go as markets reopen and experiential plans to play to consumers' passion points, like music and live sports. For Corona Light, our focus is on general market consumers, particularly females who seek important tastes with fewer calories. For Familiar, our focus is on acculturated Hispanics who shop in Hispanic dominant accounts. To ignite are Corona Originals, we will invest in national media spending across digital and social channels, as well as national English and Spanish language TV with a significant presence in major live sports properties such as March Madness, the NBA Finals, Gold Cup soccer and the NFL. The hotline will return to support our sports programs with Kenny Smith and Tony Romo covering the lines. Last year Corona's new La Vida Más Fina campaign was a smashing success and brought Corona back to the center of cultural conversation. With its Snoop and Bad Bunny content, generating an impressive 1 billion impressions across TV, digital and social. Snoop and Bad Bunny will be back this year to share their fine life wisdom along with new friends. This brings us to Corona Premier; Corona's answer to capturing growth in the exploding betterment segment. In fiscal '21, Corona Premier route depletions volume almost 20% and increased its penetration at a faster rate than its major competitor and other domestic lights, demonstrating we're successfully trading up consumers. Our golf and active lifestyle platforms for this brand will be supported by a retail program, continued strong media investments in key tournaments and are distinguished sponsorship of the U.S. Open at Torrey Pines in June. Moving on to Refresca which is Corona's answer for flavor seekers. Because of Refresca's unique flavor experience, it has been incremental to Constellation and the category bringing in a different consumer from beer and hard seltzer with a Hispanic index of 205 versus the FMB category. So we are happy to be able to bring the Corona Refresca variety pack back in fiscal '22 after a hiatus last year during the pandemic. We will also build on the initial success of Refresca by extending the brand into the growing high ABA F&B space with the launch of Refresca MÁS 24 ounce single serve cans with 8% ABA in mango citrus flavor. And this brings us to Constellation's most successful innovation yet, Corona hard seltzer. With only one SKU, the Corona hard seltzer became a number four brand family in a very short period of time, while consumers have flocked to this category, Corona's iconic image, multicultural consumer base and reputation as the number one most refreshing beer has allowed Corona hard seltzer to recruit new drinkers and expand the segment. In fact, Corona hard seltzer's year one volume delivered approximately 90% incrementality to our portfolio and continues to be the second fastest moving hard seltzer for brands with significant distribution. With no signs of slowing down, the Corona brand family expects ABAs to be a significant component in its future growth by expanding its base seltzer proposition and launching incremental innovation. We will continue to focus on growing distribution on variety pack number one, while introducing new SKUs to satisfy different tastes, occasions and channels. Our second variety pack is now in market with pineapple, strawberry, raspberry and passion fruit flavors. We tested a variety of flavors and consumers told us they wanted familiar great tasting flavors that pair well with a lime from Corona. In keeping with this theme of authenticity, amplified flavor and natural betterment attributes, we're excited to announce Corona hard seltzer Limonada, which is launching in June in a 12 pack variety pack, and will be line priced with Corona hard seltzer. Inspired by traditional Mexican recipes, Limonada will break the mold by delivering authentic flavor with a splash of real lemon and lime from Mexico juice and only 100 calories. To support the expansion of all Corona hard seltzers including Limonada, we plan to invest approximately 60 million across all marketing touch points to maintain the number one share of voice in seltzers during the critical summer months and will include investment in premium sports properties, like March Madness and the NBA. The plan also includes significant levels of Spanish language support to lean into Corona strength with Hispanics. Last year, nearly 20% of Corona hard seltzers volume came from Hispanics, an index of 136 versus the seltzer category. While we're on the topic, let me address the recent lawsuit filed by one of our competitors in opposition to our use of the Corona trademark for Corona hard seltzer. Earlier this week, we filed a motion to dismiss this lawsuit, as we find these claims to be completely without merit, a blatant attempt to restrain a strong and well established competitor in a high growth segment of the U.S. beer market. We have fully complied with the terms of our sub License Agreement, and we will vigorously defend our rights under our sub License Agreement and applicable law. We expect it will take several months for a court ruling on our motion to dismiss. In the meantime, we continue to operate business as usual, as we expect our plans in the ABA and hard seltzer space, where we fully expect to further build on our momentum for many years to come. Bottom line, the Corona family growth roadmap is focused on three strategic priorities in fiscal ’22. First, we will reignite the core with a refresh Corona complete with new packaging best-in-class advertising, leadership levels of media and marketing investment and culturally relevant activations. Number two, we will execute breakthrough innovation which includes accelerating growth and betterment beer. And third, we will establish a beachhead in the ABA category. But let’s not forget Pacifico. Let me repeat that. Let’s not forget Pacifico, which is the fastest growing major Mexican import beer brand in the U.S. on a dollar sales basis and is on its way to becoming the next scalable national beer brand in the Constellation portfolio. We’re doing things differently this year with the Pacifico with a focus on Gen Z consumers whose attitudes over index with Pacifico’s independent spirit. Our action sports and cause initiatives resonate strongly with their passions and values. For the first time, we’ll have national coverage on major Gen Z relevant digital and social platforms, including Hulu, Instagram, Snapchat, Twitter and Twitch. This will be year four of Pacifico being the official beer of the X Games, both summer and winter. 2021 is also an Olympic trials year and we’ll continue our strong partnership with the U.S. ski and snowboard teams with activations at competitions across the U.S. and robust media support on NBC. I’m also excited to introduce Pacifico’s first ever innovation created for Gen Z consumers with our first for new flavors. Pacifico’s Citrus Agave Lager, — ***indiscernible*** — inspired and made with a hint of agave, sea salt and lime flavor. We’re launching this month in two test markets San Diego and Dallas with three SKUs. We look forward to sharing these results and showing how innovation can grow the entire Pacifico portfolio. From an operational perspective, I’m pleased to announce that we recently completed the 5 million hectoliter expansion of our Obregon facility, which when added to our existing capacity provides incremental flexibility. As is typical, it will take some months to fully optimize this operation over the coming months. Because our beer business continues to significantly outperform the U.S. beer market driven by ongoing robust consumer demand, we are absolutely committed to satisfying this growing consumer demand for our iconic brands, including Corona, Modelo, Pacifico and Victoria. As such, we have developed plans to invest in the next incremental capacity in Mexico that will provide long-term flexibility to equip us with the next necessary production to capture the continued momentum and growth opportunities we see in the high-end segment of the U.S. beer market, which has consistently grown in mid-to-high single digit range and is expected to continue to grow at these levels into the foreseeable future. It will also provide incremental flexible capacity that will allow our breweries to operate at sensible utilization rates and deal with unplanned challenges from things like weather related issues that impacted the business during our recent fiscal year end. These have been key learnings from the pandemic. Our investments will not only support the expected future growth of our core portfolio, but for the emerging ABA or alternative beverage alcohol space and hard seltzers. Meanwhile, in addition to these initiatives, we continue to engage in constructive conversations with the Mexican government as it relates to our long-term plans for production in Mexico. Together with government officials, we're exploring options that include finding an alternative location in the southeast of Mexico that has adequate water supply and a skilled workforce. Garth will provide additional financial details in just a few minutes. To sum it up, the U.S. beer category is healthy and exhibiting strong growth led by the high-end segment. Last year off premise channels within the beer category grew 15% with the high-end growing more than 25%. The velocity of our portfolio as well as the growth and margin profile of our high-end beer business is best-in-class. We're deliberate about our innovation efforts to ensure they're focused and disciplined and we're well positioned against where the consumer is going and the future of this industry. We have significant distribution runway for our healthy core portfolio, we will continue to capitalize on the growth of the Hispanic population and the premiumization of the U.S. middle markets. And we are focused on ABA growth leveraging our core brand equities because we see this as a significant growth opportunity as well. As a reminder, our fiscal year started March 1 and our first quarter runs through the end of May. As most of you know last year, this coincided with the beginning of the pandemic when we experienced robust consumer demand for our products that lead to record trends in off premise tracked channels as consumers were in the pantry loading phase of the pandemic. In addition during the spring of 2020, we slowed production in Mexico due to COVID which led to some out of stocks in the U.S. marketplace during summer months. As a result should expect to see muted IRI and Nielsen trends early in our fiscal year due to the year-over-year unfavorable overlap until we start to overcome last year's out of stock issue when we expect our scanner data to improve significantly. However, recent four week IRI trends show the Constellation's beer business is significantly outpacing the total U.S. beer industry and is outperforming the high end of the beer market. Let's now move on to results of our Wine and Spirits business. Fiscal '21 was a year of significant progress for our Wine and Spirits business. The Gallo deal and related divestitures allowed us to sell several lower end brands; we established category leading digital capabilities. We optimized our route to market to accelerate performance and built a robust innovation pipeline while driving solid results in the face of a very challenging external environment. In fact, our retained Wine and Spirits portfolio excluding divested brands delivered net sales growth of 5% for the year, driven by double-digit volume growth from Meiomi, Kim Crawford and The Prisoner brand family. These same brands also achieved double-digit distribution gains in off premise channels last year. Impactful innovations were also a driving force for growth and included Meiomi Cabernet Sauvignon, Kim Crawford illuminate and the Prisoner Unshackled, which became the number one high-end new brand in IRI channels in fiscal '21. The Wine and Spirits business is well positioned to consistently grow net sales low to mid single digits and produce operating income growth ahead of net sales to achieve a 30% operating margin over the medium term. This will be achieved by the business delivering a margin accretive mix, implementing disciplined pricing actions, taking out stranded costs and executing other cost and efficiency improvements. In the near term, we expect fiscal '22 organic net sales growth in the 2% to 4% range. And what gives us confidence in these goals, we have solid plans in place to assure that our Wine and Spirits transformation focused on premiumization continues to gain traction. Our high-end brands are well positioned to drive mix in margin expansion. And we plan to continue to take price on select products within select markets throughout the year. We'll leverage the strong equity of these key core brands while building momentum through fully integrated marketing campaigns and partnerships to drive distinctive and consistent messaging that creates demand for these brands, including Kim, Meiomi, Woodbridge, Ruffino, the Prisoner, High West and Svedka. We remain committed to driving mix in margin accretive, scalable innovation by successfully addressing consumer trends, including the convenience RTD and betterment categories. We have a strong innovation pipeline planned for the coming year that includes the introduction of Woodbridge wine seltzer, the expansion of Svedka RTDs after a successful first year launch, and New Prisoner family innovation that includes the launch of the Prisoner Pinot Noir, Saldo Red Blend and Unshackled Sauvignon Blanc. We also plan to benefit in year two. From this past year successful innovation launches of Meiomi Cab, Kim Crawford Illuminate and the Prisoner Chardonnay and Cabernet Sauvignon. Our Wine and Spirits brand continued to outpace the ecommerce category fueled by our outstanding performance in Instacart, Drizly and Amazon, and our wine DTC growth continues to outpace the market by close to 2x. In fact, Svedka has become the number one mainstream vodka on Amazon, while Kim Crawford Sauvignon Blanc and Meiomi Pinot Noir claim number one positions in their respective categories on Drizly, one of the largest online marketplaces for beverage alcohol. The early investments we made in this space has given us a key first mover advantage, and will continue to invest in DTC and ecommerce initiatives as consumers shifts where and how they purchase beverage alcohol. The evolution of our Wine and Spirits strategy includes a critical next step to build category leading dedicated fine wines and craft spirits business which will strengthen our portfolio and capabilities in this space to meaningfully inflect our business towards the high-end. We believe that dedicating the proper focus and attention to our fine wine and craft spirits business will complement our leadership in our mainstream and premium businesses and will accelerate our goal to drive incremental profitable sales growth. As we pursue industry leading growth for our Wine and Spirits portfolio, we are constantly assessing our route to market strategies to ensure we stay ahead of consumer trends and maximize our growth opportunities. Our distributor partners play a significant role in achieving our goals and creating value for the market. To that end, we recently announced the evolution of our Wine and Spirits wholesale structure, whereby Southern Glazer's Wine and Spirits assume distribution responsibilities across approximately 70% of our U.S. Wine and Spirits brand portfolio effective April 1. Southern is a proven brand builder, with advanced capabilities in growing consumer segments, including digital commerce, fine wine and craft spirits and ready to drink. And they have category leading sales capabilities across on and off premise channels. We plan to leverage their strengths in these areas to help accelerate our category leadership. We are confident they are the best partner to help us achieve our strategic ambitions and we believe this move best positions us for long-term success and accelerated growth. Moving on briefly to Canopy growth. Over the past year Canopy has made significant progress in strengthening their position in core markets and taking steps to prepare for the inevitable legalization of Cannabis in the U.S. Canopy successful rollout of Cannabis beverages as well as other — ***indiscernible*** — 2.0 products has helped the company gain momentum. Currently, Canopy has the top three beverages in the Canadian recreational market and they recently introduced their popular Quatreau CBD beverages in the U.S. Over the coming year, we look forward to benefiting from Canopy's continued March toward profitability, the rollout of Canopy branded products in the U.S. through Canopy's arrangement with acreage and the improving legal landscape for cannabis in the U.S. In closing, let me reiterate how proud I am of the performance delivered by our Constellation team, along with our distributor and retail partners during a tumultuous year. Because of their grip, passion and determination, we're operating from a position of strength as we head into the new fiscal year and we're poised to deliver a solid year of performance again, in fiscal '22. We will continue to invest aggressively to accelerate growth for our strong portfolio of industry leading brands. We have exciting innovation in-store for the coming year. And we're building capabilities in emerging channels, such as three-tier ecommerce, while adding production capacity to fuel our growth over the long-term. Make no mistake, we have bold ambitions for the future and look forward to delivering on our long-term vision, which includes generating industry leading returns for our shareholders over that timeframe. And with that, I would like now to turn the call over to Garth, who will review our financial results for fiscal '21 and our financial focus for fiscal '22.

Question and Answer

Garth Hankinson

Thank you, Bill, and hello, everyone. Despite a volatile environment and various headwinds experienced throughout the year due to COVID-19, fiscal '21 marked another great year for Constellation brands demonstrated by a robust financial results and solid business performance with pretty strong beer operating performance and cash flow results, with our Wine and Spirits premiumization strategy continues to gain momentum and is well positioned to execute growth now that the Gallo transaction is finally closed. Specifically, in fiscal '21, we achieved strong EPS growth and delivered comparable basis EPS excluding Canopy growth of $10.44. In addition, we generated record operating cash flow and free cash flow of 2.8 billion and 1.9 billion respectively, which enables significant debt reduction of $1.7 billion and reduction of our net leverage, excluding Canopy equity earnings as we ended the year at 3.1x. And lastly, we returned 575 million of cash to shareholders in dividends. Now let's review full year fiscal '21 performance in more detail, where I'll generally focus on comparable basis financial results. Starting with beer, net sales increased 8% on shipment volume growth of approximately 7%. Excluding the impact of the Ballast Point divesture, organic net sales increased 10% driven by organic shipment volume growth of 8% in favorable price and mix. Our full year organic net sales slightly outperformed our previously communicated expectations primarily due to incremental shipments made during the fourth quarter in order to return to normal levels of distributor inventory at fiscal year end. Depletion volume growth for the year came in above 7% driven by the continued strength of the Modelo and Corona brand families. As throughout the year, strong performance continued in the off premise channel and more than offset the impact of the 51% year-over-year reduction in the on-premise channel due to COVID-19. When adjusting for one less selling date in the year, the beer business generated 7.5% depletion volume growth. Moving on to beer margins, beer operating margin increased 110 basis points versus prior year to 41.1%. Benefits from marketing and SG&A as a percent of net sales, pricing, the Ballast Point investiture and foreign currency more than offset unfavorable operational and logistic costs and mix. The increase in operational costs was driven primarily by higher material costs and brewery compensation and benefits. While, the increased logistics costs predominantly resulted from strategic actions taken to expedite beer shipments in order to accelerate inventory replenishment across the network. These headwinds were partially offset by favorable fixed cost absorption related to increased production in fiscal '21. While, marketing as a percent of net sales decreased 30 points to 9.7 versus prior year, this result landed above our previous guidance in the 9% to 9.5% range driven by incremental strategic investments made during the fourth quarter to provide continued momentum as we head into fiscal '22 and the spring selling season. Moving to Wine and Spirits, net sales declined 7% and shipment volume down 16%, while our retained portfolio for the year achieved net sales growth of 5% driven by double-digit volume growth and robust mixed benefits from Meiomi, Kim Crawford, the Prisoner brand family, as well as pricing benefits from Woodbridge and Svedka. Full year net sales results outperformed our previous expectations, primarily due to stronger mixed benefits and some incremental shipments of our retail brands in the fourth quarter. Depletion volume declined approximately 3% mainly driven by the brand's that recently divested, while depletion volume for our retained portfolio declined approximately 1%. The slight decline in our retained portfolio depletion volume was largely driven by strong fiscal '20 Woodbridge volume buy-in ahead of the price increases that went into effect on March 1, 2020 as well as their strategic efforts made throughout the year to right size inventory on hand at several chain retailers in key states. While, this resulted in negative impact of depletion trends for the fiscal year, this will allow for better inventory management going forward. Moving on to Wine and Spirits margins, operating margin decreased 150 basis points to 24.5%, has benefits from price and mix are more than offset by higher COGS, Wine and Spirits divestitures and increased marketing and SG&A spend. Higher COGS was mostly driven by unfavorable fixed cost absorption of approximately $29 million resulting from decreased production levels as the result of the wildfires. Now let's proceed with the rest of the P&L. Corporate expenses came in slightly better than our previous guidance, finishing at approximately $229 million, up 2% versus last fiscal year. The increase was primarily driven by higher compensation and benefits, unfavorable foreign currency losses and an increase in charitable contributions, primarily driven by COVID-19 support, all of which were partially offset by a decrease in insurance related costs and T&E spend. Couple of the basis interest expense for the year decreased 10% by approximately – to approximately $386 million, primarily due to lower average borrowings as we continue to decrease our leverage ratio. Our comparable basis effective tax rate excluding Canopy equity earnings impact came in at 18.2% versus 16.1% last year, primarily driven by a lower level of stock-based compensation benefit and higher effective tax rates on our foreign businesses. Stock-based compensation benefits came in slightly better than expected during Q4, in addition, we realized some small miscellaneous benefits. As a result, this drove tax break favorability versus our previous guidance. Moving to Canopy, in fiscal '21, we recognized an $802 million increase in the fair value of our Canopy investments, of which $270 million was recognized in Q4. These were excluded from comparable basis results. The total pre tax net gain, recognized since our initial Canopy investment in November of 2017 is $1.1 billion, which increased significantly during the fiscal year driven by Canopy's robust share price movement. Now let's briefly review Q4 results. Beer net sales increased 16% primarily due to shipment volume growth of nearly 16%. Excluding the impact of the Ballast Point divestiture organic net sales increased 18% driven by organic shipment volume growth of approximately 17% and favorable mix. Depletion volume growth for the quarter came in above 6%, however, when adjusting for one less selling day in the quarter, the beer business generated 7.5% depletion volume growth, which is in line with full year trends and our medium-term growth algorithm. As you're all aware, inclement weather affected the South, predominantly Texas during the last few weeks of February. These abnormal and severe conditions did have a slight impact to our Q4 depletion trends as we're estimating that we lost approximately 50 to 100 basis points of depletion volume growth in the quarter. As previously guided, shipment volume continued to significantly outpace depletion volume during the quarter and as mentioned earlier, this resulted in distributor inventories returning to more normal levels at fiscal year end. As expected, beer operating margin decreased 250 basis points to 36.8% as higher marketing spend and increased COGS were partially offset by benefits from favorable SG&A as a percent of net sales, the Ballast Point divesture and foreign currency. Marketing as a percent of net sales was 12.5% or 380 basis points higher than Q4 last year, driven by the shift to spend from the first half to the second half of the fiscal year and incremental marketing investments. Wine and Spirits net sales were down 19% for the quarter, while shipping volume was down approximately 33% reflecting the brands divested during the quarter. Our retained portfolio net sales were up 7% driven by strong shipment mix benefits as discussed earlier. Operating margin decreased 900 basis points to 19.9% primarily reflecting the negative impact of the wildfires on COGS, increased marketing and SG&A spent. In Wine and Spirits divestitures partially offset by benefits from favorable mix. Keep in mind that for approximately two-thirds of the quarter, we had a smaller business posted investitures that was burdened by the full impact of stranded costs on that smaller business. During the quarter, we also recognized a net loss of approximately 46 million in connection with smoke damage sustained during the wildfires, which was excluded from our comparable basis results. Moving to fiscal '21 free cash flow, which we defined as net cash provided by operating activities less CapEx. We generated a record 1.9 billion of free cash flow, which reflects strong operating cash flow. CapEx totaled 865 million and was in line with our most recent guidance. This included approximately 700 million of CapEx for our Mexico beer operations expansion primarily to support the Obregon 5 million hectoliter expansions. Moving to our full year fiscal '22 P&L and cash flow targets. For fiscal '22, we expect comparable basis diluted EPS to be in the range of $9.95 to $10.25, which excludes Canopy equity earnings impact. For our beer business in fiscal '22, we are targeting net sales growth of 7% to 9%, which includes one to two points of pricing within our Mexican product portfolio and operating income growth of 3% to 5%. This implies operating margin migrating to the low to middle end of our range of 39% to 40% driven by several costs headwinds we expect to encounter in fiscal '22 due to the following. First, we are estimating a significant step up in depreciation expense, driven primarily by the incremental 5 million hectoliters at Obregon that was recently completed. For fiscal '22, we are targeting total beer segment depreciation expense to approximate $260 million or an increase of approximately $65 million. Second, similar to previous years, we're expecting substantial inflation headwinds in the low to mid single digit increase range, largely related to glass and other packaging materials, raw materials, transportation and labor costs in Mexico. Third, as the growth of hard seltzers and alternative beverage alcohol categories continue to rapidly expand, we expect to continue to experience unfavorable mix impacts as their margins are diluted from a gross profit perspective, due to the incremental packaging costs and flavor additives. Furthermore, we also anticipate a negative mix impact driven by incremental keg volume versus prior year driven by the continued reopening and return of business to the on-premise channel. And lastly, we expect margin headwinds related to the brewery expansion costs which include increased headcount and training expenses. To help partially offset these headwinds, we expect to execute against our aggressive cost savings agenda. And as stated earlier, expect pricing benefits in the 1% to 2% range. As a result of staggering our fiscal '21 fall price increases throughout the back half of fiscal '21 and in some instances into fiscal '22, we expect to shift more pricing from the fall to the spring in fiscal '22. Lastly, as it relates to beer marketing spend from fiscal '22, we expect marketing as a percent of net sales to be in the 9% to 10% range, keep in mind that marketing spent during the first half of fiscal '21 was significantly muted resulting from COVID-19 related sporting and sponsorship event cancellations and or postponements. For fiscal '22, we expect to return to our typical spending cadence, which is weighted more heavily towards the first half of the fiscal year. Moving to Wine and Spirits, for fiscal '22, the Wine and Spirits business is targeting net sales and operating income to decline 22% to 24% and 23% to 25% respectively. This implies operating margins to approximate 24%, which is flattish to prior year on a reported basis, which shows significant margin expansion on an organic basis. Excluding the impact of the Wine and Spirits divestitures, organic net sales is expected to grow in the 2% to 4% range. The transformation of our Wine and Spirits business is underway and over the next few fiscal years, we're committed to removing stranded costs and executing against other cost savings, mix and price and efficiency improvements and we expect to continue to achieve margin expansion as we migrate to operating margins of approximately 30%. Other fiscal '22 guidance assumptions include interest expense in the range of $350 million to $360 million, corporate expenses to approximately $235 million, comparable tax rate, excluding Canopy equity and earnings of approximately 19%. Non-controlling interest is expected to be approximately $40 million and weighted average diluted shares outstanding are targeted at approximately $196 million, this assumes no share repurchases for fiscal ’22. We expect fiscal ’22 free cash flow to be in the range of 1.4 billion to $1.5 billion, which reflects operating cash flow in the range of 2.4 billion to $2.6 billion in CapEx of $1 billion to $1.1 billion, which includes approximately $900 million target for Mexico beer operation expansions. I think this is a good spot to elaborate on our capital expansion initiatives for our beer business that Bill touched on earlier. As Bill outlined, our beer business continues to significantly outperform the U.S. beer industry driven by robust consumer demand, as such it is essential that we invest appropriately in order to support this growth for our core beer portfolio, as well as the emerging ABA or alternative beverage alcohol space. These investments include a 5 million hectoliter expansion at Nava dedicated to ABAs, including hard seltzer that is expected to be completed in early fiscal ’23. And we are in the process of expanding Obregon to 19 million hectoliters to be completed by the end of fiscal ’25. As a result, you should expect our annual CapEx spend for the beer business to be in the 700 million to 900 million range to support this 15 million hectoliter capacity expansion during fiscal year ’23 to fiscal year ’25. These projects are expected to generate solid returns as our beer business has a high operating ROIC and a best-in-class margin profile, despite the incremental depreciation expected from our CapEx investments. Even with the capital expenditures associated with these initiatives, our strong projected earnings and operating cash flow growth allow us to remain focused on operating below our targeted leverage range, which provides us with the flexibility to execute our $5 billion cash return commitment over the next two years. Our brewery operations in Nava and Obregon have long been part of the fabric of these communities. As part of our expansion efforts and commitment to making a positive impact on the communities where we operate, we will continue working with local authorities and community based organizations on sustainability initiatives that benefit local residents. For instance, over the past several years, Constellation has helped support local infrastructure investments in Obregon that have enhanced water efficiency in the region, more than offsetting our water use at this facility. This is in addition to other benefits we provide including local job creation and fueling economic development. We are working with local partners in Nava on similar initiatives. Lastly, given the current state of activities in Mexicali, we will be unable to use or repurpose this site for future use. Therefore, we expect to take an impairment of approximately $650 million to $680 million in Q1 of fiscal ’22, which will be excluded from comparable basis results. However, as Bill mentioned, we actively continue to work with government officials in Mexico to pursue various forms of recovery for the costs we have incurred in constructing the brewery and determine next steps in Mexicali. In closing, I want to reiterate our expectation to continue to have significant capital allocation flexibility as we head into fiscal ’22, which will enable ongoing progress in returning cash to shareholders, while making strategic investments to support long-term growth initiatives. Fiscal ’21 was a challenging year, yet one that provided key learnings resulting from operating in a volatile environment due to the pandemic. First and foremost, the growth and margin profile of our high end beer business is best-in-class and we expect it to remain as such well into the future. In order to maintain this momentum, we are committed to an exciting innovation agenda, which includes capitalizing on the robust growth in the ABA space while continuing to support the strong growth momentum of our core beer business. This requires us to expand and optimize our production footprint, which not only sets us up for long-term growth, but provides us with contingent capacity to operate sensibly utilization rates will providing us with much needed flexibility. We believe this is the right strategy in order to support our beer business that continues to outperform the market driven by robust consumer demand and we are absolutely committed to satisfying these demands. With that Bill and I are happy to take your questions.

Operator

— ***Operator Instructions*** — Our first question comes from the line of Lauren Lieberman with Barclays. Your line is open. Check to see if you are on mute Lauren, your line is open.

I don’t think we have her here. Our next question comes from the line of Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

So on the beer demand side, I guess short-term, we’ve now cycled COVID. Maybe you could just give us an update on March depletion trends and what you’re seeing in April so far? And then longer term, can you touch on the growth opportunity from here on Modelo Especial, it seems to be defined the growth slowdown that happens to a lot of other brands as they get much larger. So it would just be helpful to take a look forward at the key drivers from here in terms of incremental distribution, expansion, innovation, contribution, demographics, et cetera, some of the key drivers that happened in fiscal ’21 and your thought process going forward in terms of the growth drivers with that brand? Thanks.

William Newlands

Absolutely. We’re very pleased to say that March has gotten off to an excellent start. And March was certainly ahead of what our trend line was coming in. So we’re very pleased with the start of the New Year, April, obviously, it’s a little early to judge. Relative to Modelo, there’s really no end in sight for its double digit growth profile. It continues to grow with the Hispanic community and obviously, it is a nice tailwind because of the growth in the Hispanic community. But we still have great distribution opportunities. We continue to grow our velocities on that brand. And when you think about the penetration increasing in the non-Hispanic community 25% over the last couple of years, we’re barely scratching the surface. As you probably know, we really only started to advertise outside the Hispanic community over the last few years. So the upside within that community we think is tremendous. And as you also know, we nearly never done any innovation in that other than watching the Chelada line, which of course is quickly become the number one Chelada. We think there’s just a tremendous opportunity for Modelo to continue to grow for a long time to come. It's only number three at this point. There's plenty of room still to go up.

Operator

Our next question comes from the line of Kaumil Gajrawala with Credit Suisse.

Kaumil Gajrawala

If I may just ask about buybacks and you reiterated your $5 million commitment, but it wasn't included in the release, I guess in terms of what buybacks are going to be for fiscal '22. Can you just talk about how you're thinking about that?

Garth Hankinson

Sure. Thanks, Kaumil. We are absolutely committed to meeting our $5 billion commitment over the course of the next few years. And as you know, that includes a significant amount of share repurchases $2.5 billion for the share repurchases. As we entered this year, we said we were going to have two real commitments as it relates to capital allocation, one was paying down debt and then second was making significant progress on that return of capital. Throughout the year, as we noted, we did pay down debt quite a bit. We started the year at about 3.92x and we've ended at about 3.1x. And, we paid down the – the Gallo transaction closed in early January, we didn't pay down the last tranche of debt, the $5 million redemption in early February. And at that point, we had some things that we were doing that we had to clear up most notably, finalizing our analysis on Mexicali, and then the subsequent, further investment in capacity. So that's why we didn't make any progress in fiscal '21. But we fully expect to make meaningful progress this year.

Operator

Our next question comes from the line of Bonnie Herzog with Goldman Sachs.

Bonnie Herzog

I guess I had a question on your guidance. I understand, the headwinds you guys called out that are going to pressure your operating income this year, but I guess I'm trying to think through some of the levers you might have to offset these pressures, beer pricing for one comes to mind, as you called out, your pricing was softer last year, it was under 1% for the fiscal year, which is below your typical 1% to 2% range. So how should we think about your willingness to take more pricing this fiscal year to offset some of these incremental cost pressures? Would you be willing to go above your typical range? And then, finally, how much visibility do you have with some of the commodity and transportation headwinds that you're facing? Curious, are you fully hedged, for instance, on some of these commodities?

William Newlands

Sure. Bonnie, I will take the first half of that. We believe the 1% to 2% pricing actions that we take pretty much on an annual basis is the smart way to approach it, it balances the opportunity to get improved revenue scenarios with the recognition that, you do have some price sensitivity within certain consumer groups that consume our brands. So you always walk that delicate balance of where you go. And our view is 1% to 2% is a good amount that allows us to continue to maintain the strong momentum within our business that we have. As you know, we continue also to aggressively increase our spend overall against our marketing platforms. And that will only be expanded when you think about some of the innovation agenda. So we're very optimistic about the whole platform. But we're getting much beyond that, I think in any one year, it is probably not the best way to approach that question. And Garth, you might answer her second please.

Garth Hankinson

Sure. Just on the opportunities on the hedging, Bonnie, so first of all, every year, our ops teams and our production teams are looking for ways to take costs out of the business, still continue to look for those as we go through the year. So those are possible levers as we move forward. But quite candidly, those cost savings get harder and harder as time goes on. As it relates to our hedging position. As you know, we have a fairly robust and sophisticated hedging policy that allows us to layer in hedges on both commodities and on currencies over the course of many years to take advantage of favorable rates. So we've done that in order to mitigate what otherwise may have been higher inflation this year. That being said, we're not fully hedged in any one thing, whether that's currency or commodities. And so to the extent that there are any improvements as rates, we could benefit from those as well.

Operator

Our next question comes from the line of Bryan Spillane with Bank of America.

Bryan Spillane

My question for you just related to Mexicali and I guess, just trying to think through, of the – I guess roughly $800 million that we've spent there. In terms of just cash back – what are the sort of opportunities to maybe recapture some of that cash, whether it's repurposing the equipment, the land – selling land? Also, will there be any cash tax benefit? You basically wrote that off as a loss and then there's a cash tax benefit, just trying to understand how much of that cash we could think about you recouping over the next year or two?

William Newlands

So obviously, Bryan, we continue to work to mitigate that impairment, but obviously we felt it was time to take that impairment. We have repurposed a number of the equipment things that we have there into other facilities as part of our expansion of the other facilities. And we're going to – we're continuing discussions with the government as well, relative to mitigating the impairment for the future as well. But I do think it's important to note one thing, though, we're not going to let this setback and admittedly, we're not happy about it. We're not going to let this get in the way of focusing on our growth and meeting the growth and high demand that we have for our brands over the long-term. The reason where we're doing the capacity expansion that Garth talked about previously, is because our demand continues to be aggressive, A, on our core business, and B, we're going to get after the ABA/seltzer space, in an even more aggressive way than we have up to this point. So we're not going to let this get in the way of us meeting consumer demand for our brands in the future. Garth, do you want to comment on that one?

Garth Hankinson

Yes. Just as it relates to further recovery. So first of all, the impairment kind of is net of what we think we've recovered to-date, right. So we have been moving equipment out of Mexicali and over to Obregon, in support of the 5 million hectoliters that just went live. We continue to do that to support further expansion at Obregon. And really taking the impairment is – and making the decision to move on is the first step in further evaluating what our next options are, which, as you indicated, could include things like selling the land and whatnot. And then, just further as it relates to any the negotiation of the conversations, I should say that the Bill referenced, we do expect that there will be some additional recovery in that –recovery could come in many different forms, it could come in cash payments, it could come in tax credits, it could come in infrastructure credits, things of that nature. So, we're certainly not done, as it relates to trying to recover any lost costs.

Operator

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

Vivien Azer

My question is on your margins, understanding that there some very clear structural headwinds that you're contending with and even to offset with cost savings. I am a little bit surprised that your E&P guidance is not a little bit higher, given the substantial amount of new product activity. So I was hoping you could just elaborate on kind of what informed the range in order of magnitude how you're thinking about prioritizing that spend.

Garth Hankinson

I'm sorry, Vivien, I was trying to understand the question. So I think what I heard you say you're asking the question around what's driving the, or trying to get a sense for that the scale of what's driving the margin dilution. So as we said, about a third of the dilution is driven by the inflation, which we discussed, about a third of that is coming from the increase in depreciation. And then, a third of that is from the mix impact moving towards seltzers and ABAs.

William Newlands

Well, advertising is going to be consistent going forward with what our historical trends have been in that sort of mid nine's range. We're obviously in a growth business like ours, that's still a significant increase year-on-year on what the total spend is, because it's coming off a very much higher top-line than it was in the prior year. So we're actually spending a lot more in our marketing spend than we had in prior years.

Operator

Our next question comes from the line of Kevin Grundy with Jefferies.

Kevin Grundy

I wanted to drill down on your views for the hard seltzer category, if I could. Three part question. So one, has the category slowdown that we're seeing in the Nielsen data in the first quarter? Is that in line with your expectations, obviously, very difficult year-over-year comparisons, but that being said, still moderating. Two, what are you forecasting for the seltzer category this year? What's embedded in your outlook? And then, the last piece is maybe touch on your level of satisfaction with your market share at this point, understandably, you're leaning in now, you talked about the $60 million ad campaign. That being said, as we look at the Nielsen data your market share is hovering in the 3% area. How is that relative to your expectations? Where do you expect that to go here over the next 12 months?

William Newlands

Sure, two or three of those things, we'll try to get them all. It's not unexpected in a category that's continuing to bring in new consumers that you have some seasonality effects. We certainly saw greater seasonality effect over this recent period than we saw a year ago as an example. Our view is, that's likely because you have a significant higher percentage of either early or less consistent user. So it wasn't really a surprise, it still remains a growth sector within the beer industry. Our forecast it's going to continue to grow and continue to be a very important part, which is why we're more than doubling our capabilities against hard seltzer for this particular year coming, that we're just starting. We believe this is going to be an important part. And it also provides an interesting entree for people into the overall beer category. Relative to the market share, as you know, as we expanded our capabilities that allowed us to do additional SKUs, we did almost 10 million cases this past year with one SKU, which is kind of an outstanding launch, if you will. But the expansion that we are putting in place is going to allow us to more than double that we've already introduced SKU number two and number two variety pack, and we have Limonada coming online, here this coming June. So our expectations is, you'll see a significant increase in our share proposition, in part because we'll have more available to the consumer. And we'll have more shelf space on the warm shelf and more cold back space in the cold box as well. So we're very optimistic about what our profile will look like as the year goes on.

Garth Hankinson

Yes, Kevin, just to follow up on that really quickly, so that the growth that you're seeing so far is, fairly well, in line with what we're expecting. We're expecting growth in the category this year to be in that 40% to 50% range.

Operator

Thank you. Our next question comes from the line of Sean King with UBS.

Sean King

I guess with your fiscal year ending, since then, seems like the market has opened up quite a bit, I guess, I'd love to know a bit more about what you're seeing in the on-premise. And also within that any change in distributor inventory level, then the more markets reopen?

William Newlands

You're starting to see difference and obviously, it varies by state. So for instance, it got a little tighter in California in the early part of this calendar year than we had anticipated, but overall, we're starting to see some increase in the on-premises, you would expect recalling that sort of it's going against the time last year when it was off more than 50%. So we certainly would expect some of that. I think that the open question, it's very difficult to predict, quite frankly, is where the all the whole channel mix ends up going. It's an open question. As you know, we are somewhat less susceptible to the on-premise channel than some of our competitors, because our overall profile is SKUs more to the off-premise anyway. But certainly, we're optimistic and as more of the U.S. population gets vaccinated, we're hopeful that in the summer months, it begins to look a little bit more like what a typical year would be. But it's still a little early to make that call.

Operator

Our next question comes from the line of Rob Ottenstein with Evercore.

Rob Ottenstein

Just two follow ups, one for each of you. Bill, can you talk a little bit more about Pacifico, on every call, you get progressively more excited about it, which is great. Can you talk maybe, sort of the reasons to believe that it's going to be a major national brand? And then, Garth maybe touch on how you're thinking about the mix between share buybacks and dividends? It seems evident from the release just a 1% dividend increase. Why so little and is that just, the way you're looking at things is that you'd much rather prefer share buybacks particularly at the depressed valuation of the equity.

William Newlands

Well, Robert, Patty always warns me about being too giddy, but I must say it's tough not to be giddy when you look at some of the results around Pacifico. Consistently you're seeing four week trends in IRI that are up in the 30 plus percent range. That the core business in Southern California continues to do extremely well and it's developing across the country. Again, we really just are scratching the surface of building out with this brand to be. But my old friend Bill Hackett always said Pacifico, starting to look a lot like Modelo looked about 15 to 20 years ago in terms of the development and how it really started out in the California bases. Modelo is now the number one brand in the state of California. I'm not making a prediction that Pacifico will be the number one brand, but it wouldn't be the worst thing that ever happened. So I certainly – there's just a lot to be excited about you, you then add in that we're starting to do some innovation and some innovation testing in that brand with Gen Z consumers. This brand very much over indexed with Gen Z consumers. So we're bringing in a somewhat different audience than what we have with some of our other franchises. So, again, it's early days, but there's just so much to be excited about with Pacifico. We really think this could easily be the next big franchise within our overall portfolio. Garth, over to you.

Garth Hankinson

Sure. And on the sort of capital allocation question regarding share buybacks and dividends. I mean, look in the construct of everything we're trying to do from a capital allocation standpoint is, we want to make sure that we maintain investment grade, we want to make sure that we return to shareholders what we previously said we would return to shareholders, which was about 2.5 billion of share buybacks and 2.5 billion of dividends. And we want to make sure that we have the flexibility to invest in our business, as we talked about investing significantly in Mexico to support the robust growth of our portfolio. So all of that goes into the mix when we're trying to decide where to spend the money. And as it relates, specifically to dividends, versus share buybacks, we feel pretty good about where we are in terms of our payout ratio right in the target of what we've set for ourselves. So that's why we didn't increase it more. And by keeping it where we are, we're able to do all those other things that I said, return a significant amount of money in share repurchases, invest behind the brand, maintain our investment grade rating.

Operator

Our next question comes from the line of Chris Carey with Wells Fargo Securities.

Chris Carey

I just wanted to follow up on a couple of the prior answers. I guess, just one, I'm trying to understand what's embedded from an off-premise and on-premise standpoint for next year, it seems like, even if you get half of the on-premise back, you're looking for only low to mid [teen digitally] [ph] off-premise. And if on-premise comes back and full, off-premise basically, implies did not grow next year. And I guess what I'm trying to understand is, is that just a construct of difficult comps, in the off-premise? Or is there something else in play? Because clearly, commentary from the trade seems positive, Nielsen scanner was good even on, COVID comps, you get innovation coming through. So I'm just trying to understand that. And if I could sneak one and just on distributor inventory, you mentioned that inventory seemed back at the levels where you want to but at the same time, the trade would suggest that you're still trying to catch up. Can you just add a little bit more perspective around that?

William Newlands

Sure. So let's start with the inventory, our inventory levels came out last year at roughly a normal level. And we expect that it will stay roughly within that range, we have no major change in expectations about changing inventory. Relative to on-premise, remember, today, it's only 6% of our business as it currently stands, because of the significant decrease that's occurred based on COVID. So our expectation is, we're still going to see very robust growth in the off-premise, during this fiscal year. And as you've seen, we're consistent with our long-term growth algorithm that we've seen already stated March is off to an excellent start. So we're very optimistic about that algorithm. But with that said, it's also going to be difficult to exactly predict what will happen with the on-premise, because we've already seen as markets have opened and then closed a little bit and reopened, there's just a lot of variability that's hard to predict. Again, while there is an over expression in the off premise, that isn't the worst thing for us, our business is over skewed into that area. And we continue to expect robust growth within the off-premise channel for this for this fiscal year.

Operator

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

Andrea Teixeira

So I wanted to just – since we've covered a lot of grounds on beer, a bit on Wine and Spirits. What are you seeing with the reopening and also anything in terms of the switch between at home and on-premises, anything about promos and how you're going to position your focus brand?

William Newlands

Well, the biggest switching that we've seen is a significant increase in three tier ecommerce. As we said in my prepared remarks, we were quite pleased the fact that we got way ahead of that we were already investing against that capability. And we've accelerated that investment, which really in our view gives us a first mover advantage in this particular area. And you're seeing that change, I'm sure just as a shopper, we've all seen in-store a significant increase of Instacart, click and collect and some of those alternate ways of people buying considering how they used to buy. Direct to consumer is also up, we're pleased that we are performing at more than 2x the growth profile of DTC and we've also invested in that area, you'll recall earlier, last fiscal year, we bought Empathy, in part to radically improve our capabilities in the direct to consumer. And we are now leveraging that across many of our other brands. So we're very excited about those opportunities and that being an increasingly important part of the future of the Wine and Spirits business.

Operator

Our next question comes from the line of Steve Powers with DB.

Steve Powers

Maybe just to round out and build on the capacity expansion discussion. You start early with Bryn, if I think just out beyond the fiscal '23 to '25 plans at Nava and Obregon. Is it fair to assume that additional expansion would take shape outside those two facilities? Or is there more room to expand those locations? And I guess in terms of those new locations, Bill, I think you mentioned exploration of future sites in the southeastern part of Mexico, which I think is consistent with preferences that have been expressed by the Mexican government. But just can you elaborate on your considerations there because if does play out, you'd be shipping long distances to get to the southern border of the states. And just thinking – just want to think through how you're thinking about overcoming those dynamics just to preserve overall efficiency?

William Newlands

Well, let's put a little bow on the whole scenario about building out our capabilities. One of the things that we've been quite good at over the last several years, is running our plants at hyper efficiency. But I think one thing is learning from the pandemic. And I think any good business should have an element of learning when something hits you in the face and the pandemic certainly did that across many, many, many industries. One of the things we learned is, well, our efficiency was tremendous; we didn't have a lot of flexibility in the event that something didn't go well. And so one of the pieces that we are doing with this expansion is not only to meet the hyper growth that we have within our business, but also to create some increasing flexibility and some redundancy within our business. So that if you have weather challenges, or God forbid, we had another pandemic, but if you had weather challenges, or some other curveballs that occurred, it would have minimal to no impact on our ongoing supply. So that was very important. Relative to the southeast, we are considering that it's critically important to have water supply, it's actually a lot of shipping capabilities to some of the areas that we are looking into. So we're pretty confident that could very well be a future location for a brewery for us. Admittedly, that's a bit out, it takes two to four years to even get that process going and underway. But we're certainly evaluating it because we think it could be a long-term very viable solution for our business.

Operator

Our next question comes from the line of Laurent Grandet with Guggenheim.

Laurent Grandet

So like to actually follow-up on Kevin's question on the seltzer category. So last year, when you launched Corona seltzer, you said you will spend about [$40 million] [ph] to use the brand. So a year later Corona seltzer is about 2.5% of market share in the last four weeks and SCV is down 60%. So what makes you believe that with two new SKUs, one being launched late in the season just in June, and spending about $50 million, which by the way, we'd be happy share of voice of last year, you will be more successful. And actually what success would look like for you in the fiscal year 2021 in seltzer?

William Newlands

Sure. Well, let's keep in mind that 60 million, that'll be the number one share of voice in the seltzer category during the critical season. So, our view is that's a very important and loud efforts against that particular sector. Secondly, again, you got to keep in mind, we produced everything we could possibly produce last year and we sold it. It was probably the most successful introduction the company's ever had with the corona hard seltzer. So we were very pleased with our position. What we did see is there remained a lot of opportunity, it remains a growing sector in the beer business, we only have one SKU expanding our footprint to meet more consumer needs and occasions and flavor profiles was going to be very important. And it also gives us the chance to get expanded reach and velocity at both warm shelf and in the cold call box. So we think having the number one share of voice in this particular category, coupled with our new introductions that are coming this year, we're very excited about what our share profile will look like as the year goes on.

Operator

I'm showing no further questions at this time. I would now like to turn the call back over to Mr. Bill Newlands for closing remarks.

William Newlands

Thanks very much. And thank you all for joining the call today. I know it was a bit longer than some of them. As a result of our continued robust performance and financial discipline this past year, Constellation Brands achieved strong earnings growth generated record cash flow and significantly reduced our debt providing solid momentum as we head into fiscal 22. Our beer business has an exciting innovation lineup for the coming year and we expect our core portfolio to continue to generate robust growth as well as we've talked earlier today. In order to satisfy this robust consumer demand, we have plans in place to execute our next increment of capacity expansion and we are pleased to be in the position to continue investing in Mexico and enhancing our operational platform. Our Wine and Spirits premiumization strategy gained significant traction during this past fiscal year and the divestiture of several lower end wine brands positions this business for enhanced growth and profitability going forward. We look forward to speaking with all of you again in late June when we will share the results of our first quarter of our new fiscal year. Before then, we hope you'll choose some of our fine products for your spring celebrations, including Cinco Se Mayo and Memorial Day and let us all hope they are a bit more normal. Thanks again and have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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