Constellation Brands Inc, Q4 2024, Earnings Call 2024-04-11

Presentation

Operator

Good day, and welcome to the Constellation Brands Fiscal Year 2024 Fourth Quarter Full Year Earnings Call. — ***Operator Instructions*** — As a reminder, this call is being recorded.

At this time, I'd like to turn the call over to Snehal Shah, Director of Investor Relations. Mr. Shah, you may now begin.

Snehal Shah

Thank you, Rob. Good morning all, and welcome to Constellation Brands' Year-End Fiscal 2024 Earnings 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 today's news release or otherwise available on the company's website at www.cbrands.com.

Please note, when we discuss comparable earnings per share figures for fiscal 2024 and prior fiscal years, we are referring to earnings per share on a comparable basis, excluding Canopy equity and earnings, unless otherwise noted. 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 will 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 one question per person, which will help us to end our call on time today.

Thanks in advance, and now here's Bill.

William Newlands

Thanks, Snehal, and good morning, everyone. Welcome to our fiscal '24 year-end earnings call. As usual, I'd like to start with a few headlines from this past fiscal year.

First, I'm pleased to report that we delivered another year of strong performance in fiscal '24. We drove comparable earnings per share growth of nearly 9% and remain focused on achieving our stated medium-term target of low double-digit comparable EPS growth moving forward. This growth was supported by a net sales increase of 5% at an enterprise level and solid operating leverage that resulted in an increase of 7% in comparable operating income, representing an enterprise comparable operating margin of nearly 33%. This performance once again yielded recognition for Constellation Brands as the #1 growth leader among large CPG companies by Circana in calendar year '23 as we have been 5 of the last 7 years. We are the only CPG company of scale to make their top 10 ranking for 11 consecutive years.

Our continued strong performance and momentum heading into fiscal '25 reinforces our confidence in our ability to deliver against the following targets outlined at our Investor Day this past November, maintaining 6% to 8% enterprise net sales growth, delivering 33% to 35% enterprise comparable operating income margin and generating low double-digit comparable earnings per share growth, all of which we intend to achieve in fiscal '25.

Second, from a segment perspective, our fiscal '24 results were largely driven by our beer business, which delivered net sales and operating income growth above 9% and 8%, respectively, both exceeding our expectations from the beginning of the year. This strong performance drove our largest dollar share gain ever for a full fiscal year, adding an impressive 2 points of dollar share within the U.S. beer category. And we achieved a significant milestone this year as Modelo Especial became the #1 beer in U.S. dollar sales. Furthermore, across all beverage alcohol, our beer business was the #1 dollar share gainer, capturing 1.1 points of share and driving nearly 70% of the total dollar growth in the sector. This was truly a remarkable achievement by our entire beer team working in concert with our distributor and retail partners as they delivered volume growth for the 14th consecutive year which is certainly another incredible differentiator among CPG companies.

In our wine and spirits business, we faced a series of near-term category headwinds throughout fiscal '24 but remain confident that our strategy is sound. We recently promoted Sam Glaetzer to serve as our new President of Wine and Spirits. He is a well-rounded and accomplished industry veteran with nearly 30 years of experience in the wine and spirits category and a successful track record of driving commercial and operational efficiency and effectiveness.

Sam also played an integral role in the implementation of the business transformation over the last few years, leading our global end-to-end supply chain optimization initiatives and building a world-class farming, winemaking and distilling network, aligned to consumer preferences while developing a focused international route to market to deliver incremental growth for the business in the medium term.

Now with the strategic transformation of our Wine and Spirits portfolio is largely complete, Sam is well positioned to lead our team in driving enhanced focus on execution, and the delivery of growth and improved profitability. To that end, our Wine and Spirits team has identified several immediate actions to help drive improvement in our year-over-year top line performance, which I'll discuss in more detail shortly.

Third, we continue to achieve superior cash flow generation and deployed that cash in a disciplined and balanced manner underpinned by our consistent capital allocation priorities. For fiscal ’24, we generated $2.8 billion in operating cash flow, and we’re able to reduce our net leverage ratio by nearly 0.5 point while returning over $900 million back to our shareholders through quarterly dividends and share repurchases.

We also continue to prudently invest to support the ongoing growth with total capital expenditures of nearly $1.3 billion in fiscal ’24, most of which was focused on capacity additions to our beer brewing operations. And fourth, we continued to deliver against our environmental, social and governance objectives, which I’ll discuss in more detail shortly.

With that as a backdrop, let’s turn to a more detailed discussion of our fiscal ’24 performance, starting with our beer business, which despite some challenging weather in our fourth quarter, grew depletions by 9%, resulting in our 56th consecutive quarter of depletions growth. For the full year, we continue to extend our lead as the #1 high-end beer supplier in the U.S., delivering top share gains across the total beer category underpinned by a nearly 14% increase in dollar sales and nearly 11% volume growth across tracked channels.

And in line with our expectations, we captured low double-digit percent incremental shelf space this spring while adding another 21,000 resets through our shopper-first shelf program in fiscal ’24. These factors all played a significant role in driving the growth of our beer business paired with the strength of our portfolio’s iconic brands starting with Modelo Especial, which grew depletions by nearly 10% and maintained its leading position as the top share gainer, and as noted earlier, the #1 overall beer brand in U.S. tracked channels.

Corona Extra increased depletions nearly 1% and maintained its position as the #3 high-end beer brand in the U.S. and Pacifico delivered depletion growth over 17% as it reached the 20 million case sold milestone and remained a top 10 share gainer across the total beer category and the #4 share gainer in the high end. While we continue to build on the success of our iconic brands, we are also building good traction with our focused innovations aligned with consumer-led trends of premiumization, flavor and betterment.

Our Modelo Chelada brands delivered an increase of 30% in depletions also surpassing 20 million cases sold and remained the #1 Chelada in the category supported by the launch of our new flavor, Sandía Picante, and new pack size offerings. We are excited to continue to build on that momentum in fiscal ’25 with 2 new flavors, Fresa Picante and Negra con Chile. Modelo Oro’s national launch established a strong foundation for the brand as it rose to become a top 5 share gainer across the total beer category and the #3 share gainer in the high end with just 2 SKUs.

Given that strong reception and ongoing consumer demand for betterment products, we are launching 2 more Modelo Oro SKUs in fiscal ’25, an 18-pack and a 24-pack. Staying within the Modelo brand family, our new Aguas Frescas variety pack secured the #1 new FMB spot in its test market of Nevada. So on fiscal ’25, we will be expanding its rollout to another 20 markets for this authentic liquid aligned with consumer-led flavor trends and featuring our project, our nitro technology.

In our Corona brand family, we introduced Corona nonalcoholic, which is the leading dollar share gainer in the fast-growing nonalcoholic beer segment. As for fiscal ’25, we are testing Corona Sunbrew in select Eastern markets. This new refreshing beer is brewed with real citrus peels and a splash of real citrus juice.

The strong execution of our beer business in fiscal ’24 was also reflected in our ability to maintain best-in-class margins by combating trailing inflation headwinds with cost savings and efficiency initiatives. We also continued to invest in our beer business in fiscal ’24, deploying approximately $950 million in capital expenditures, supporting our ability to meet the continued robust demand we see for our brands through the expansion of our beer brewing capacity at Nava and Obregon and the ongoing work at our new Veracruz site.

Looking ahead to fiscal '25 and in line with the plan we laid out at our Investor Day in November, we expect our beer business to remain within our net sales growth algorithm of 7% to 9% and for operating margins to gradually improve, supported by our operating income growth of 10% to 12%.

Moving on to Wine and Spirits. Due largely to the challenging market dynamics referenced earlier, our Wine and Spirits business saw declines of approximately 8% for both organic net sales and operating income but still landed within our revised guidance range. While we do not expect ongoing challenges in the Wine and Spirits category to immediately subside, particularly in the mainstream and premium price segments, we have identified several areas to improve the performance of our wine and spirits business in fiscal '25, including, but not limited to, refocusing our efforts within our premium and above brands to more consistently drive growth in our most scaled and central offerings, notably in Crawford, Meiomi, The Prisoner, High West and Mi Campo while accelerating additional tactical investments to revitalize the equity and support demand for our largest mainstream brand, Woodbridge, and ensuring that we continue to support the transformation of other significant brands in our portfolio such as SVEDKA, Vint by Robert Mondavi, Ruffino and Lumina.

Note that these 11 brands represent 3/4 of net sales and over 80% of volumes for our Wine and Spirits business in fiscal '24, which is why we plan to provide more focus and investment for them. Another key area we are focused on is aligning with our U.S. wholesale distributor partners on clear priorities to help enhance our performance in our largest markets and channels.

As noted in our prior call, these priorities include enhanced focus on improving mix, inventory and sales execution. We will also be making additional investments in media spend and price promotions as well as adjustments in our own sales capabilities to better support the execution and go-to-market efforts of our distributor partners. And similar to our beer business, we will continue to focus more broadly on efficiency opportunities to drive operational and sales excellence across our Wine and Spirits segment.

This will include the operational and supply chain initiatives highlighted at our Investor Day as well as enhancements to the business's organizational structure to enable a more effective and competitive operating model. Looking forward to fiscal '25, we expect our Wine and Spirits business net sales to be relatively stable and operating income to be down 9% to 11%.

While we believe the focus on sales execution I just outlined will help stabilize the top line growth for Wine and Spirits, our operating income guidance reflects incremental investments in additional media spend price promotions and sales capabilities as well as continued inflationary pressures on some cost of goods sold and lapping of distributor contractual payments and reduced incentive compensation that occurred in fiscal '24. As we noted, we remain committed to continuing to advance this business over the coming years toward the medium-term targets shared at our Investor Day.

Moving on to capital allocation. we continue to deliver against our stated priorities and targets in fiscal '24. As noted earlier, we further strengthened our balance sheet with a reduction in our net leverage ratio, supported by our strong earnings performance and our disciplined debt management.

We returned cash to shareholders and deployed most of our capital investments to brewery expansions to support the growth of our beer business, and we continue to conduct tuck-in gap-filling acquisitions that are aligned with consumer-led trends and complemented our portfolio. We also made notable progress in regards to our environmental, social and governance ambitions in fiscal ’24.

From a governance perspective, our Board undertook refreshment actions that resulted in the appointment of 2 new independent directors, each with strong financial backgrounds. We also recently announced the election of a new independent Board Chair, Chris Baldwin, who brings a wealth of senior leadership experience from the CPG sector. In addition, in line with our commitment to be good stewards of the environment, since we had surpassed our initial water restoration target in fiscal ’23, we established a new goal of restoring more than 5 billion gallons of water to key water sheds near our operations between the time frame covering fiscal ’23 and ’25. This goal is designed to ensure local residents and businesses have ample supply and access to water, which is the key to building sustainable and thriving communities. Finally, we announced 2 new environmental commitments in fiscal ’24 to reduce waste within our key operating facilities and to enhance circular packaging.

So in summary, we once again achieved another strong year of performance and significant progress across our strategic initiatives in fiscal ’24, and we fully expect to build on this momentum in fiscal ’25. We are confident in our ability to continue to create shareholder value and deliver on our commitments, including achieving low double-digit comparable EPS growth by generating high single-digit net sales growth and delivering best-in-class margins for our beer business, managing category challenges and improving the growth trajectory of our Wine and Spirits business with enhanced execution and maintaining our capital allocation discipline and commitment to operate in a way that is good for business and good for the world.

As I wrap up, I want to once again thank all of our colleagues across Constellation as well as our trade partners for their hard work and dedication in helping us deliver another year of industry-leading performance, and I believe we are well positioned to keep that momentum going in fiscal '25.

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

Garth Hankinson

Thank you, Bill, and good morning, everyone. As usual, my discussion will focus mainly on our comparable P&L results, starting at an enterprise level followed by business segment detail for fiscal '24. I will then discuss our fiscal '25 outlook and expectations in the same matter.

Starting with net sales. As an enterprise, we delivered growth of over 5% slightly exceeding our fiscal '24 guidance range of 4% to 5%. This was driven by the strong performance of our beer business, which grew net sales over 9%, exceeding our guidance of 8% to 9%. As Bill mentioned, our beer business had another strong year of depletion growth, a 7.5% increase as the strength of our portfolio carried throughout the entire year. Off-premise depletions grew by over 8%, which represent nearly 89% of our total depletion volume. The on-premise accounts for the balance of our depletions and grew by over 1%.

We expect to build on our momentum in off-premise channels, supported by the low double-digit incremental shelf space that we captured this spring, which we foreshadowed at our Investor Day last November. And we continue to see opportunity to drive growth in the on-premise with new draft handles particularly from Modelo Especial and Pacifico in the coming fiscal year. I will elaborate on fiscal '25 shortly.

Shipment volumes for our beer business in fiscal '24 grew 7.4%, and we achieved favorable pricing of 2%. These volume and pricing increases were partially offset by the divestiture of our craft beer business and an unfavorable shift in product mix. In aggregate, the volume, price and mix changes amounted to a nearly $700 million increase in beer net sales for fiscal '24. In regards to selling days, we had 1 extra sell day in the year, which occurred in Q4. This had a minimal impact on our volumes as shipments and depletions on an absolute basis were over 99% aligned for the year.

For our Wine and Spirits business, net sales declined 9% and 8% on a reported and organic basis, respectively. The change in organic net sales for our Wine and Spirits business was within our lowered guidance range of a 7% to 9% decline. This decline was largely driven by unfavorable U.S. wholesale performance, particularly across our mainstream and premium brands. As Bill noted, we are working with our U.S. wholesale distributor partners to enhance performance in our largest markets and channels in fiscal '25.

Additionally, in our international markets, net sales for fiscal '24 were down 7% by de-stocking, particularly in Canada, our largest export market. More recently, in Q4, net sales from our international markets grew 14%, largely driven by the Canadian market where inventory levels have begun to normalize. The net sales decline in our U.S. wholesale and international markets were partially offset by 10% net sales growth in our direct-to-consumer channel.

Moving on to our operating income and margin. At an enterprise-wide level, we delivered a 7% increase in comparable operating income at the upper end of our 6% to 7% guidance resulting in a 50 basis point increase in comparable operating margin to 32.6%. This was driven by the strong performance of our beer business, which grew operating income by just over 8% and delivered an operating margin of 37.9%.

Enterprise-wide operating margins also benefited from an 11% reduction or $30 million decrease in corporate expense driven mainly by reduced third-party consulting fees related to our DBA project spend. This solid performance was partially offset by our Wine and Spirits results, as operating income, excluding the gross profit, less marketing of the brands that are no longer part of the business following their divestiture, declined by 8%. This decline was within our lowered guidance range of a 6% to 8% decline, resulting in a flat year-over-year operating margin of 22.2%.

Elaborating on the margin puts and takes in more detail, starting with the beer business. The increase in operating income and slight 40 basis point decrease in operating margin were reflective of an absolute increase of approximately 12% in overall COGS. This increase in COGS includes the impact of increased volume and the nearly $205 million from cost savings initiatives realized in fiscal ’24.

By COGS component and on an absolute basis, inclusive of both volume growth and cost savings, year-over-year changes were as follows: Raw materials and packaging represented the midpoint of 55% to 60% of total COGS and had an absolute increase of 16%; Logistics, making up just over 20% of total COGS, increased 3% as a large portion of the benefits from our cost savings agenda came from this area; Labor and overhead landed at just under 15% of total COGS and increased 19% attributable to the construction activities at our Veracruz brewery; and the remaining portion of total COGS depreciation increased approximately $37 million, representing the incremental capacity that was brought online in fiscal ’24.

Moving on to marketing. Our dollar spend increased by approximately 2% year-over-year. As a percent of fiscal ’24 net sales, marketing was approximately 8.5%, coming in slightly below our medium-term 9% algorithm partly driven by the divestiture of our craft beer brands and efficiencies from the transition to our new media agency. Lastly, SG&A, which represented approximately 5% of net sales increased approximately 8%, driven by the unfavorable impact of foreign currency and increased compensation and benefits. These increases were partially offset by benefits from the craft beer divestiture and lower legal fees.

Moving on. Our Wine and Spirits business operating income margin, excluding the gross profit, less marketing of the brands that are no longer part of the business following last year's divestiture remained flat year-over-year as the volume decline and unfavorable channel mix were offset by favorability in our COGS, driven by nearly $40 million coming from our cost savings initiatives, favorable pricing, reduced other SG&A expenses and a reduction in marketing expense.

Interest expense for fiscal '24 was about $435 million, a 9% increase from prior year driven by higher average borrowings and weighted average interest rates. We ended fiscal '24 with our comparable net leverage ratio, excluding Canopy equity and earnings of 3.2x, leaving us well positioned to achieve our target of approximately 3x in fiscal '25.

Our comparable effective tax rate, excluding Canopy equity and earnings, was 18.5% versus 19.2% last year. Comparable EPS for fiscal '24, excluding Canopy equity and earnings, grew nearly 9% year-over-year to $12.38 and came in above our guidance range of $12 to $12.20.

Moving to fiscal '24 free cash flow, which we define as net cash provided by operating activities less CapEx. We generated free cash flow slightly over $1.5 billion, exceeding our $1.4 billion to $1.5 billion guidance range. Free cash flow decreased 12% year-over-year, driven by a 23% increase in CapEx investments attributable to our expansions at our existing facilities and the ongoing construction of our new brewery in Veracruz.

In fiscal '24, we increased our total nominal capacity from our Mexico brewery operations from 42 million hectoliters to approximately 48 million hectoliters as a result of the modular expansions brought online over the summer that were fully ramped by year-end along with unlocked incremental capacity through our optimization initiatives. Consistent with our capital allocation priorities, we once again delivered cash returns to our shareholders with over $900 million of expenditures in dividends and share repurchases.

In addition, we executed portfolio gap filling transactions, encompassing both a tuck-in acquisition of a female and Black-founded luxury wine brand with a successful track record and a venture investment in the high-growth nonalcoholic space in fiscal ’24.

With that, let me now step through our outlook for fiscal ’25, starting with net sales. We are targeting our enterprise-wide net sales to grow 6% to 7%, inclusive of a 7% to 9% growth target for our beer business and a 0.5% decline to 0.5% growth in net sales for our Wine and Spirits business. The beer top line outlook is expected to be primarily achieved by continued strong volume growth of our portfolio. Again, we expect this to come from distribution of our largest brands bolstered by spring shelf reset gains, the health and continued support of our consumers and innovation in the form of brand extensions, new-to-world products and new pack sizes.

Regarding beer volumes. We anticipate fiscal ’25 shipments and depletions to track closely on an absolute basis, consistent with prior years. Similarly, we expect the cadence of our shipments and depletions in terms of share of annual volumes from a quarter and a half year perspective to be fairly in line with fiscal ’24.

For Wine and Spirits net sales, we expect to largely offset ongoing category headwinds as we drive the sales and marketing execution initiatives described by Bill earlier. Additionally, we expect mix-related benefits due to the better performance in our higher-end brands. That said, we continue to anticipate overall volume growth to remain challenged, particularly due to demand headwinds in the mainstream and premium price segments, which account for a major part of our volumes. Furthermore, from a net sales perspective, we are expecting unfavorable lapping of bulk sales through fiscal ’24.

From a cadence perspective, we also expect quarterly and half yearly shipments and depletion shares of the full year total to be fairly aligned with fiscal '24. For fiscal '25 operating income, we expect comparable enterprise-wide growth between 8% and 10%, reflecting 10% to 12% operating income growth for our beer business, a 9% to 11% operating income decline for our wine and spirits business and a slight increase in corporate expense to approximately $260 million.

For our beer business, we anticipate operating income tailwinds from volume growth and favorable pricing. We expect these tailwinds will be partially offset by continued input cost inflation with an absolute increase in COGS, inclusive of volume growth, cost savings initiatives and our multiyear hedging actions in the high single digits. We expect the following percent of total COGS and absolute increases across each component. For packaging and raw materials to account for 55% to 60% and increase mid- to high single digits.

Logistics to make up approximately 20% and increased mid-single digits. Labor and overhead to be approximately 15%, an increase in the high teens primarily driven by merit salary increases given the strong operational performance from the business and incremental headcount, primarily at our Veracruz brewery as we continue with construction. And the remainder of COGS depreciation with a mid-single-digit increase, which approximately equates to a $20 million step-up which is slightly lower than recent years given prior depreciation of the packaging line of the ABA facility that was operational throughout all of fiscal '24.

Outside of COGS, we expect marketing expense as a percent of net sales to be approximately 8.5%, which is lower than our unchanged medium-term algorithm of 9%. The change of marketing expense as a percent of net sales for fiscal '25 is driven by a shift in our marketing investment allocation with an overall focus on maximizing value. The investment shift is geared towards prioritizing our largest brands to support their continued momentum followed by our high-growth potential next wave brands and then thoughtful and deliberate investments to support our innovation pipeline.

And savings driven by efficiencies from our new media agency partnership announced in Q3 of fiscal ’24. Rounding out beer operating margin drivers, we anticipate SG&A as a percent of net sales to be approximately 5%, in line with the medium-term algorithm we provided during our Investor Day. All in, this implies beer operating margins of approximately 39% as our beer business continues to generate best-in-class operating margins and year-over-year improvement as we close in on our medium-term targets.

For our Wine and Spirits business, operating income, we anticipate an overall COGS increase of mid- to high single digits, driven by less favorable fixed cost absorption as a result of lower volumes and higher seller overhead and blend costs partially offset by favorability in logistics and packaging costs as part of our cost savings initiatives.

For marketing and other SG&A expense as a percent of net sales, we anticipate 9% and 10%, respectively, each slightly above our medium-term outlook, driven by the adjustments to our marketing, pricing and sales investments to drive top line growth and partially offset by organizational structure changes, both points previously referenced by Bill. In addition, we expect to face headwinds from unfavorable lapping of contractual distributor payments and lower compensation and benefits in FY ’24. That said, this implies Wine and Spirits operating margins to contract to approximately 20% in fiscal ’25 as we continue to navigate category headwinds and reset investment in certain marketing and sales activities. We believe our enhanced focus on execution and planned cost savings can provide margin improvement over the medium term toward the targets outlined at our Investor Day in November.

Corporate expense is anticipated to increase slightly as we continue to invest in the business while reducing third-party fees more broadly. We expect interest expense to be approximately $445 million to $455 million, driven by higher weighted average interest rates, and we expect our comparable effective tax rate to remain unchanged coming in at approximately 18.5%.

We expect noncontrolling interest to be about $35 million and anticipated weighted average diluted shares outstanding for fiscal ’25 to be around 183 million, inclusive of share repurchase activity. Based on these assumptions, we expect our reported EPS to be between $13.40 and $13.70 and our comparable EPS to be between $13.50 and $13.80, representing a 10% midpoint increase year-over-year.

From a cash flow perspective, we expect our free cash flow in fiscal ’25 to be between $1.4 billion and $1.5 billion, reflective of $2.8 billion to $3 billion of operating cash flow net of CapEx spend of $1.4 billion to $1.5 billion, driven primarily by the expansions of our existing breweries and the ongoing construction in Veracruz. We anticipate approximately $3 billion of remaining CapEx spend from fiscal ’25 to fiscal ’28 with fiscal ’25 expected to be the peak spend year as we progress with the construction of our greenfield site in Veracruz. And consistent with our Investor Day messaging, we expect a step-up in free cash flow that should yield cumulatively between $7 billion to $9 billion from fiscal ’26 to fiscal ’28.

To conclude, we ended fiscal ’24 with strong results driven by continued outstanding growth in our beer business as its core brands reached new milestones in cases sold and market share. Our Wine and Spirits business faced difficult market conditions in FY ’24, but we’ve identified key actions to improve execution and performance.

As we look ahead to fiscal ’25, we are confident that we can deliver against our plan with strong enterprise results aligned with our medium-term targets, execute our capital allocation priorities and seek to create value for our shareholders. We thank you for your ongoing support throughout fiscal ’24 and look forward to updating you on our progress and success in fiscal ’25.

With that, Bill and I are happy to answer your questions.

Question and Answer

Operator

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

Moving on to our next questioner is coming from Nick Modi with RBC Capital Markets.

Nik Modi

Just 2 quick ones for me. Just been getting a lot of questions about gross margin and wanted to get any perspective on if there’s any onetime issues that might have affected the gross margin this quarter for beer?

And then the second part of that is just – when you think about the shipments this quarter, can you give us any context on how much might have been attributable to some – whether it be the Aguas Frescas launch into wholesale or preparing for some of the shelf easements, that would be helpful.

Garth Hankinson

Yes, Nick, I’ll try to address both of those. First, on the gross margins. As we laid out in our press release, we did have a bit of a write-off of a bad accrual as it relates to bad receivables in Q4. That impacted our Q4 operating margin by about 100 basis points.

Obviously, that would have hit gross margin as well, and that impacted the full year by about 30 basis points, again, at the operating profit margin – as it relates to Q4 impact of Aguas Frescas launch, very, very minimal impact, really just the strength of the portfolio more broadly is what drove Q4.

Operator

The next question is come from the line of Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

So I wanted to touch on beer depletions, the near 7% result in the quarter ex the extra day is a pretty solid result considering the weather. Can you just give us any sense for momentum so far in March and April when the weather normalized or maybe how big a drag January was in Q4? Just give us sort of a sense of underlying trends.

And just on market share, you mentioned the shelf space gains being disproportionate this year post Bud Light struggles. How much of a positive impact are you expecting from that? And can you juxtapose that versus the risk that Bud Light trends get better and you see some direct impact on your brands from that?

William Newlands

Sure. We obviously take into account our March results with our overall expectations for the year. But I'd say March was very consistent with what our expectations were. Everyone should keep in mind that March has 2 less selling days, April has 2 more. So we internally look at it as sort of the combo plan of those 2 months.

With that said, we had a very comfortably strong March as we expected that we would and think it's setting us off on a really solid year as we said, consistent with what we said at the Investor Day in New York. As we also noted in my script, we had low double-digit growth in our shelf sets here in the spring, greater than our growth algorithm, which is what we expected. And certainly, that's going to be one of the added values in our delivery of the total year.

But as we've said and as all of you know, incremental space, by and large, is not at the same velocity as what you have from existing velocity because it's marginal returns. With that said, we're very pleased with the increase in our shelf position. We've said for many years our brands really deserve it. They've averaged over $50 million per SKU in dollar return. And it certainly is reflective of what I'm sure all retailers are seeing and that our brands are driving the growth in the category.

Operator

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

Bryan Spillane

So I guess just stepping back, we had this question a couple of times this morning and maybe the underlying question is just, at an enterprise level, we get back to being basically on algorithm for the year, but in a year where Wine and Spirits underdelivers beer – at least in terms of growth rate on operating profit, maybe a little faster than normal, a little help from below the line on interest expense.

So just is it a coincidence, right, that basically, there can be a hole with Wine and Spirits under delivering but there were other offsets. Or was this more a function of you all maybe making some adjustments to get to that place, whether it's pulling some savings forward or using some tax credits. So I think people are just trying to understand how much manipulation or how much work you had to do to sort of make up the difference or whether this was just a coincidence.

William Newlands

No, Bryan, we don't play with the numbers. The numbers reflected very strong results in our beer business. As we've said, we've had some challenges in our Wine and Spirits business. As you know, we just installed a new President of our Wine and Spirits business whose focus will be on execution.

We have a number of things in this coming year that will cause it to be a bit of a reset year at the bottom line because we're lapping a number of onetime issues, but that isn't going to stop us from delivering on the enterprise-wide results that we committed to in New York and that we are reiterating today. We expect to continue to show best-in-class results.

As you heard in my remarks, last year, we again were the #1 growth company in Circana large companies as we have been 5 of the last 7 years, and that is what's really driving the success of our business, not anything else.

Operator

Our next question is from the line of Lauren Lieberman with Barclays.

Lauren Lieberman

I was just curious, you gave a lot of help and color on the Wine and Spirits. But I was just curious, we've heard in the industry more about – you spoke last quarter about promotional pressures. Other manufacturers have talked about retailer destocking, seeing more inventory management at the distributor level. Just curious to hear your take on kind of the promotional environment and kind of state of the union on inventory levels within the system, knowing it's tough to have visibility within 3 tier, but just curious your view on inventory in the system online.

William Newlands

Yes, you bet. We did see some inventory reduction this past fiscal year, particularly in Canada. There was quite a bit of inventory realignment in Canada. And certainly, there has been some that we've seen in the U.S. as well. The thing that I think is important for us to continue to focus on is we've made a number of changes. We're going to focus on those 11 brands that are really the biggest drivers of our success. That's a bit of a change.

Frankly, we'd probably peanut buttered our efforts a little too broadly in the past, and we're going to focus on those brands that we believe have real growth potential for the long term. We're also going to do a bit more promotional spend than we have in the past, particularly on brands like Woodbridge, where that's an important part of the consumer dynamic.

A lot of work and research has been done in the last few months to make sure that we understand all of the consumer dynamics around our critical brands, and we will execute against those dynamics in this coming year. And I think that's reflective of an improved pipeline that you see this year, acknowledging there'll be a bit of a reset at the bottom line.

Operator

Next question is from the line of Chris Carey with Wells Fargo Securities.

Christopher Carey

So Garth, thank you for all the perspective on expectations around your margins for the full year. Can you just perhaps expand a little bit on what specifically is driving the commodity input inflation, number one?

And then secondly, if I put all this together, it does feel like maybe there's a little bit of top line leverage you're expecting or you need a little bit more savings on the G&A line to get to the low double-digit number for the full year in the division. So maybe just help provide any context on that. So thanks on the commodities and maybe just some of the assumptions on how you're getting to the operating profit number for the full year.

Garth Hankinson

Yes. So just as it relates to margins for beer, I think that – first of all, I think we have to acknowledge that if you look at the past 2 years and you look at the disruption we saw to global supply chains and then the elevated inflation environment that we've been dealing with that the improved margins starting in the back half of our fiscal '24 and then moving forward with significant margin expansion in FY '25 to get near the low end of our target range, I think that, that's no small feat.

As we look forward to FY '25, we're going to face similar tailwinds and headwinds that we have for the last several years. The tailwinds, again, will be volumetric growth given the strength of our brands, as well as the – our typical pricing algorithm. Some of the issues that we'll face or headwinds that we'll face is that while commodity prices have certainly abated from their highs, they're certainly sort of higher still than their historical norms or near-term historical norms.

And there have been a couple of commodities that have been a bit resilient in their strength, if you will, or haven't come down nearly as much as we would have hoped. So we still face those. In addition, we have the strength of the peso, which is something that we're going to continue to manage through. Fortunately, we're hedged as we enter the year against the peso at about 80%. So we're going to manage that effectively.

And as you've heard us talk about extensively, both on this call and Investor Day, we have this year as well as have had last year an aggressive set of cost savings initiatives that will help benefit the business. So all in, I mean, we think that there is fairly significant margin expansion here, margin growth in FY '25 as we move towards getting closer to our midterm growth algorithm – or midterm margin algorithm.

Operator

Our next question is from the line of Kaumil Gajrawala with Jefferies.

Kaumil Gajrawala

Just one quick follow-up on the shelf space question. You've gained a lot of shelf space already. Can you maybe just give us a sense of how much incremental space do you expect as we think about this spring? And then secondly, it looks like the strategic or I guess the valuation on Wine and Spirits is complete. To what degree did you consider divestments as part of it, either for pieces of that business or maybe even for the whole thing?

William Newlands

Sure. As I stated, Kaumil in my primary remarks, low double-digit shelf space is what we expected to get, and that's, in fact, what we are getting in spring resets. Obviously, it varies all over the map depending, but that's roughly what the total number is in the aggregate. And again, that's at least as much as we expected. We're very pleased with where that landed.

Relative to the Wine and Spirits business, we've made this comment a number of times. The person that drinks across all 3 categories, beer, wine and spirits spend 6x as much as an individual that drinks only in 1 of those 3 categories. Therefore, we continue to feel that that's important that we are accessing significant additional consumer occasions and consumer spending by being able to play in all 3 of those categories.

Operator

Our next question is from the line of Nadine Sarwat with Bernstein.

Nadine Sarwat

Two interrelated questions from me. First, you obviously posted very robust beer volume growth this quarter. What are you seeing in terms of the health of the U.S. consumer today? Any signs of down trading or shift in behavior?

And then the second question also on the consumer. Some of your industry peers have highlighted dry January being more meaningful headwind this year. Other commentators are calling out different drinking patterns amongst younger legal drinking age consumers.

So I'd be really curious to hear what you are observing when it comes to these trends, any changes in behavior from the consumer.

William Newlands

Sure, Nadine. We're very pleased with the health of our consumer. We've said many, many times, the brand loyalty that we have within our franchise is superb. And I think that's really important. I think when you put that together with the fact that – and Garth has mentioned this on a number of occasions, we've been judicious in our pricing strategy over the last few years which is a little bit different from what some other people have done in CPG industries.

But we think that's important to maintain that consumer base given the very strong loyalty that we have within our franchises. It's also important to note that the high end, which is the only place where we compete in beer continues to see an increase in buy rate. So that again speaks to the fact that the consumer continues to premiumize, and we're in the perfect position to take advantage of that particular point.

Relative to any consumer changes in January and so on, one of the things that we've noted a couple of times is betterment. We've done a number of things in our wine business to bring out light or lighter products like Illuminate and Kim Crawford, and Bright in Meiomi. Similarly, our Corona nonalcoholic had a great start. It was the #1 share gainer in the nonalcoholic segment. And I think that does reflect some change in consumer behavior or people that are concerned about being the designated driver but still want to enjoy an outstanding tasting beer.

We're going to continue to emphasize the betterment trends as we go forward with a number of our product offerings and certainly expect Corona nonalcoholic to continue to grow here in this coming fiscal year as well.

Operator

Our next question is from the line of Andrea Teixeira with JPMorgan.

Drew Levine

This is Drew Levine on for Andrea. So just 2 for us, if we may. Just going back to one of the earlier questions, Bill, if you can comment maybe on depletion trends outside of California versus inside California during the quarter and how those progressed throughout the quarter.

And then one for Garth, I think you mentioned roughly $200 million of cost savings for beer in fiscal ’24. I think that implies a pretty meaningful step-up in the fourth quarter. So if you could just talk about maybe some of the projects where you saw a benefit and how we should be thinking about cost savings for fiscal ’25.

William Newlands

Andrea, your voice got a lot lower since the last time you asked the question. All joking aside, our trends were very, very strong, really across the country. A significant place – let me use Pacifico, as an example, the depletions across that brand for the year were up 17%. And obviously, the big stronghold is California.

Modelo Especial continues to be the #1 brand in the state of California. But we’re also seeing really good success across the country, places like Texas and Florida. And secondary markets, we’ve always said secondary markets are going to be an important element for us and many, many, many of those showed double-digit increases over this past year. So we were very pleased to see a broad-based growth profile for our business as we closed out the year, and we think we’re in a position to continue to do that here in fiscal ’25. Garth, I think the second one is for you.

Garth Hankinson

Just on the roughly $25 million of cost savings that came out of the beer business throughout the year, yes, that ramped up throughout the year. We started right out of the gate very strong in Q1. And again, that ramped up as we went through the year. The ramp up as we went through the year really based on 2 factors. One is we identified or put in place new initiatives throughout the year, but then you also benefited from almost from a compounding perspective for those things that started earlier in the year as well.

The kinds of initiatives that we undertook last year were procurement-related in terms of various RFPs around raw materials where we're able to address some of the outsized increases that we saw over the last 2 years due to global supply chain disruptions as well as the inflationary environment. There was a number of logistics initiatives in terms of railcars and double stacking and also a number of operational initiatives that were underway.

Operator

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

Robert Ottenstein

First, could you please just remind us what your gross dollar amount of expenses that are peso-denominated are? So that would be great. And then second, looking at the scanner data, and this is Circana, your price mix has been well below the beer category over the last 4, 12 weeks or so.

So I'm trying to understand why that's the case. And most of the other players took pricing kind of before or after the Super Bowl. And what is the timing on your price increases this year? And again, why is your apparent realization in the scanner data less than the market and most of the other big brands.

Garth Hankinson

Yes. So on the first one, in terms of the amount of costs that are peso-denominated for our beer business is about 20% to 25% of our costs are peso-denominated. And as I said, as we enter this year, we're hedged at about 80%.

William Newlands

And relative to price realization, as you know, a lot of what you see in these types of things depends on when pricing increases or pricing actions were taken. We consistently have said 1% to 2% is our pricing algorithm. And over the course of the whole year, we're still expecting to see 1% to 2% pricing actions.

As you also know, Robert, we do that on a SKU-by-SKU market-by-market basis, and therefore, you have reflections in different time frames across the year as to when that actually shows up. I don't think that's anything that we are concerned about or any kind of an ongoing trend. And as we said, over the course of the year, we'll expect to get 1% to 2% as we've communicated we would.

Operator

Our next question is from the line of Filippo Falorni with Citi.

Filippo Falorni

I had a question on the overall beer industry and your thoughts as we are about to cycle the big market share shift with the controversy around Bud Light in April of last year. Clearly, your business was growing at this rate well above before this controversy, but there are some concerns that you might have benefited from the market share shift. So maybe you can address some of the impact that you see on your business and how you're thinking about it as we start to cycle those impacts?

William Newlands

Well, as we've said right along, we probably were not the single biggest gainer as it related to the controversy that you know. But I'd also, again, continue to point out something I said earlier, which is we've got extraordinarily strong brand loyalty and we only play in the high end.

The high end is where the growth in the category is at the moment. And we're fortunate that, that's exactly where we play. When you add in the fact that we've seen a significant increase in our share growth in our shelf presence here during this spring reset program, we think we're in a great position, recognized we are coming off the single biggest share gain in the history of Constellation Brands beer business. 2 points an all total beer and 2.6 points in the high end. It's an unprecedented gain, and I think it reflects the sheer strength of our brands.

Operator

Next question is from the line of Gerald Pascarelli with Wedbush Securities.

Gerald Pascarelli

Just going back to wine, Bill, the drivers you laid out in your prepared remarks were very helpful. But based on current trends, I think the outlook for the year came in above expectations, definitely above our expectations. So I guess in the context of 2 guide downs last year, if you could maybe provide some more commentary just on your level of confidence this early in the fiscal year in achieving flat revenue performance, that would be great. And then does your outlook embed the assumption that the wine category will ultimately start to improve from current levels this year?

William Newlands

I think, obviously, Garth and I spent a lot of time with our Wine colleagues over the last few months, looking carefully at what we thought was critically important. The reflection of an improved performance has several variables involved. One, we're going to work much more closely and enhance our sales capabilities to support our distributor network.

I think we've gotten much more aligned as to what our intentions and expectations are, both from distributor to us and us to distributors than where we had been as we came out of last year.

Second, we've refocused our priorities. There are 11 or so critical brands that did not probably have the right amount of prioritization within our overall portfolio, and we have radically addressed that. Third, we're going after efficiencies within the business, and we think there are those to be had.

As you know, that was a tremendous success last year in our Beer business. And we're putting some of the same resources against our Wine and Spirits business that helped generate that very strong result last year. So there's a number of elements that we are putting in place, recognizing this is going to be a bit of a reset year, particularly at the bottom line for the Wine business.

However, again, we've said we think the strategy is sound. It's right. It's going to get us to our medium-term algorithms as we go forward. And at this point, it's all about execution. And I think Sam Glaetzer and the rest of the team are going to be crystal focused on execution against our strategy.

Operator

Our next question is from the line of Carlos Laboy with HSBC.

Carlos Alberto Laboy

Can you please expand further on the state of on-premise activity that you saw towards your end and more important currently?

William Newlands

I think you saw some interesting volatility, depends on the particular time frame. And we saw some of that. We had an issue for a brief period during this year where we had some issues with kegs, which is now fully behind us. We're continuing to see strong development in the on-premise, and we're particularly excited about it heading into Cinco, which is obviously the next big time frame for us and a time frame when we historically have done very well and made significant share gains both in the retail and in the on-premise environment.

So we're very optimistic that the on-premise is going to be an important part of what our results are this year. Both Modelo, Corona Extra and Pacifico are all growing share in that channel, and we expect that, that continued share growth is going to continue in this fiscal year.

Operator

At this time, we've reached the end of the question-and-answer session, and I'll hand the floor back to Bill Newlands for closing remarks.

William Newlands

Thank you, Rob, and thank you to all who joined today's call. As we wrap up, I want to once again thank our colleagues across Constellation as well as our trade partners for delivering another strong year of performance in fiscal '24. Your continued focus and discipline has made Constellation a top-performing growth leader among CPG companies for 11 consecutive years. No other company in recent times can say that, and we're extremely proud of this achievement.

As we head into fiscal '25, we're confident in our ability to further build on our momentum and to create additional shareholder value by delivering low double-digit EPS growth fueled primarily by our beer business, which we expect to generate high single-digit net sales growth and best-in-class operating margins, heightened focus on our commercial and operational execution in our Wine and Spirits business while maintaining our disciplined approach to capital allocation and continuing to serve as good stewards of our environment and the communities where we operate. As we approach the key summer selling season, we invite you to enjoy some of our great tasting products as part of your festivities, and we look forward to speaking with you again on our next quarterly call.

Thank you very much, and have a good day, everybody.

Operator

This will conclude today's conference. Thank you for your participation. Have a wonderful day.