Constellation Brands Inc, Q4 2016, Earnings Call 2016-04-06

Presentation

Operator

Welcome to the Constellation Brands Fourth Quarter and Full Year 2016 Earnings Conference Call. — ***Operator Instructions*** —

I will now turn the call over to Patty Yahn-Urlaub, Vice President of Investor Relations. Please go ahead.

Patty Yahn-Urlaub

Thank you, Lori. Good morning, everyone, and welcome to Constellation's Fourth Quarter and Fiscal Year-End 2016 Conference Call. I'm here this morning with Rob Sands, our President and Chief Executive Officer; and David Klein, our CFO. This call complements our news release, which has also been furnished to the SEC.

During this call, we may discuss financial information on a GAAP comparable, organic and constant currency basis, however, discussions will generally focus on comparable financial results.

Reconciliations between the most directly comparable GAAP measures and these and other non-GAAP financial measures are included in the news release or otherwise available on the company's website at www.cbrands.com.

Please also be aware that we may make forward-looking statements during this call. While those statements represent our best estimates and expectations, actual results could differ materially from our estimates and expectations.

For a detailed list of risk factors that may impact the company's estimates, please refer to the news releases and Constellation's SEC filings.

— ***Operator Instructions*** — Thank you. And now I'd like to turn the call over to Rob.

Robert Sands

Thanks, Patty. Good morning, and welcome to our year-end call. Now before I begin the review of our accomplishments for fiscal 2016 and our plans for the coming year, I'd like to focus on the new initiatives disclosed within the press release issued earlier today.

First, we announced that we are evaluating the merits of executing an IPO for a portion of our Canadian business. The consideration of this strategic action is the result of our ongoing efforts to identify value-enhancing opportunities for our shareholders and to strengthen the financial profile of our overall wine and spirits businesses. As we continue to transform the company, the focus and resources we put behind strategic initiatives to support sustainable, value-generating long-term growth are also evolving. This effort would provide better visibility to the Canadian business, which delivered excellent financial performance in 2016.

Our Canadian business has a strong leadership team with extensive knowledge of the Canadian market. They market and sell a winning portfolio of brands and have a proven track record of successful innovation and new product development that resonates with Canadian consumers. Their size and scale across Canada includes 8 wineries in key wine regions, approximately 1,700 acres of Canadian vineyards and a network of growers to support their Canadian-produced brands. And they are the largest holder of independent retail licenses in Ontario with more than 160 wine rack stores. We are in the early process of evaluating an IPO of this business and we plan to make a final decision later this calendar year, depending on market conditions. If an IPO is completed, the proceeds are expected to be used to manage debt and our other capital allocation priorities.

This morning, we also announced our plans to acquire The Prisoner Wine Company brands, a super luxury portfolio of 5 highly rated wines, led by the largest brand, The Prisoner. It's other brands include Saldo, Cuttings, Blindfold and Thorn with overall volume for the portfolio reaching 175,000 cases in calendar 2015.

The Prisoner is currently the #1 super luxury red blend, growing at almost 30% in IRI channels at the $40 retail price point. Now similar to the Meiomi wine brand acquisition, The Prisoner acquisition aligns with our portfolio premiumization strategy and enables us to capitalize on U.S. market trends that favor high-end wine brands with accretive margin profiles. In particular, it strengthens our position in the dynamic and margin enhancing super luxury wine category and can be easily integrated into our existing portfolio of brands.

So now let's turn our attention to some of our key achievements for the past year and great initiatives we have underway for fiscal 2017. Overall, I am pleased with the significant accomplishments and the impressive financial results we achieved in fiscal 2016. This past summer, we purchased the Meiomi wine brand, which is currently the fastest growing major brand in IRI channels in the $20 luxury price point. The brand delivered depletion growth of almost 60% in fiscal 2016, a trend which has accelerated since we first acquired the brand last summer. Its excellent margin profile is one of the contributing drivers of the margin expansion for the wine and spirits business in fiscal 2016.

Meiomi Pinot Noir was one of the hottest wines of the year listed as #20 in the Wine Spectator's Top 100 for 2015 and #1 – that's good – on wine.com's top 100 list, which is based entirely on consumer preferences. We believe the brand has plenty of room to continue driving healthy growth for our business.

Last fall, we entered the craft beer market with the purchase of Ballast Point, one of the most awarded major craft breweries in the industry. Ballast Point provides a high growth premium platform that is enabling Constellation to compete in the fast growing craft beer segment, further strengthening our position in the high end of the U.S. beer market.

In calendar 2015, Ballast Point posted depletion growth of more than 130% and sold nearly 4 million cases. This phenomenal level of growth is approximately 3x that of any major competitor.

Operationally, we selected a site and secured the land to construct a new state-of-the-art brewery in Mexicali, Mexico. Initially, this brewery will be built to operate at 10 million hectoliters of production capacity with potential scalability to 20 million hectoliters and it will have similar technology and operational advancements as our Nava Brewery.

And speaking of Nava, we successfully completed our first incremental 5 million hectoliter capacity expansion as planned by year-end calendar 2015. And we are progressing with our plans to build out Nava to 27.5 million hectoliters by early calendar 2018.

Now these investments in Mexicali and at Nava will ensure that we have the capacity, quality, control and flexibility to meet expected demand for our iconic beer brands well into the future and position us to capture the continued momentum and growth opportunities we see in the high end of the U.S. beer market.

Organizationally, we made key management changes across the business, strengthening the organization by fostering the continued growth and development of our people, while ensuring continuity to build upon our current success and drive the company's long-term growth strategies. Collectively, these accomplishments, in conjunction with our excellent business performance, have helped to drive the appreciation of our stock, which remains one of the best performing stocks in the S&P 500 Index.

Now let's move to the excellent business performance I just referenced as a critical component to our success. We'll start with the Constellation Brands beer business, which was the #1 contributor to growth in the total U.S. beer category last year for the third consecutive year, with most of our brands in the Mexican import portfolio posting record volumes in 2016. And Constellation was the leader and the #1 share gainer in the high-end segment of the U.S. beer market in calendar 2015.

More remarkably, our beer business growth has accelerated every year since 2010 with depletion trends exceeding 12% in fiscal 2016. I'd like to take a minute to share some of this past year's amazing accomplishments for our iconic beer brands and highlight the key initiatives we plan to execute during fiscal 2017 in order to maintain this excellent momentum.

Let's begin with the clear heavyweights in our portfolio, Corona Extra and Modelo Especial. These brands are 2 of the hottest brands in the industry and delivered 25% of the U.S. beer category industry growth last year. Our flagship Corona Extra brand has been the #1 imported beer brand for almost 20 years and today is the #5 beer brand overall in the U.S. industry. This brand sold more than 117 million cases in fiscal 2016, growing depletions almost 10% versus the prior year. This growth occurred across the country as Corona Extra grew share in 49 out of 50 states and was the only top 5 U.S. beer brand to grow share for the year.

Corona Extra growth has been accelerating over the last 5 years with the can launch accounting for about 1/3 of the growth in fiscal 2016. The remainder of the phenomenal growth came from the increased distribution and velocity of the iconic Corona Extra bottles.

In fiscal 2017, we expect to increase our media investment in Corona Extra while focusing the dollars against key time periods that include the NBA Finals and our 120 days of Summer in order to maintain our leadership position during our most important selling season. We also plan to increase our digital investments as we saw great success with the brand's social media activities last year. We believe there remains tremendous growth opportunity in Corona Extra cans as depletions for this format increased more than 100% in fiscal 2016, but currently represent less than 6% of total brand volume. As such, we are investing more behind Corona cans to generate incremental awareness and consumer demand. You'll see a heavy media presence leading into key can holidays, including Memorial Day, July 4 and Labor Day.

Now moving to Modelo Especial, this brand is stronger than ever as the fastest growing major beer brand in America. Last year, the brand grew depletions more than 19% to surpass 70 million cases and $1 billion in sales. As a result, Modelo Especial was the #1 dollar share gainer and is now ranked as the #8 beer overall in the U.S. market in total dollar sales, up from the #9 position last year.

The size of this brand has doubled in just 5 short years and our goal is to keep this momentum going. In fiscal 2017, our biggest opportunity for this brand lies in expanding distribution, because despite being the #2 import, Modelo currently has less than 50% distribution on most packages. We also see tremendous opportunity for this brand in the on-premise channel, where Modelo Especial increased more than 20% last year with the draft format increasing almost 50% yet only about 30% of on-premise locations across the U.S. carry Modelo Especial today. So we are focused on closing that distribution gap and increasing the momentum.

Now for the sixth consecutive year, we are increasing our Modelo Especial investment in national, Spanish language TV and digital, and we will be running new TV advertising throughout the entire year, increasing our spend on live sports by 50% and investing in heavily visible soccer broadcast properties. In addition, we are increasing our general market media by almost 40% across national TV and digital with high profile placements during the NBA playoffs and key NFL match ups. Together, we expect these initiatives to position Modelo Especial for another great year of stellar growth.

I also want to call out Corona Light, which remains the #1 imported light beer by a large margin. Depletion growth on this brand has accelerated every year for the last 5 years with depletions growing almost 8% in fiscal 2016. In fiscal 2017, we plan to build on the already successful Light Cerveza campaign with a new TV advertisement, which will begin airing nationally this month. We have also added high profile, live spots during NHL playoff broadcasts this spring and sponsorships of national Major League Baseball games on ESPN during the key summer holidays. This will be supplemented with an investment in social media. We are also expanding Corona Light draft by launching with several additional distributors. The Corona Light can will continue to be a big point of emphasis as depletions for this format increased more than 40% in fiscal 2016. As you are aware, the bench strength of our beer portfolio goes deeper than our biggest brands. Part of what makes our collection of brands so powerful is the long-term potential of our smaller brands like Victoria and Pacifico that are currently outpacing category growth.

And let's not forget about Ballast Point, a brewer known for unbridled innovation and outstanding quality and one that gives our beer portfolio a leading position in the craft space that can be built upon in several ways. This year, it's to expand the Ballast Point distribution nationally, making it available in all 50 states. This along with successful new product launches is expected to drive the strong double-digit growth we are targeting in fiscal 2017.

Overall, I'm excited about the growth prospects for our beer business in fiscal 2017. As you can see, we have tremendous opportunity to grow the business organically through enhanced distribution and execution opportunities across the portfolio. As a result, we are targeting both net sales growth and operating income growth in the 14% to 17% range for our beer business in fiscal 2017, including the benefits from Ballast Point.

From a brewery and operational perspective, in fiscal 2016, we achieved our key Nava Brewery performance goals for capacity utilization, quality and cost. All areas of the brewery expansion are well underway with overall project on schedule to be completed on time and within our budget.

As we begin fiscal 2017, we'll be intensely focused on the continued expansion of the Nava Brewery to 20 million hectoliters. This capacity is expected to become fully operational within the next few months. As a matter of fact, we've already begun to run test brews and have all-new packaging lines up and running in test mode to support this 20 million hectoliters of capacity.

Now over the next few months, we will continue to fine tune all the components necessary to successfully achieve this important milestone as planned. Within our existing capacity, we recently made our first brew of Modelo Especial Chelada at Nava with excellent results. With that accomplishment complete, we have now made brews of all of our products at this brewery. And as many of you are aware, our third phase of expansion to 25 million hectoliters is our next critical milestone and I am pleased to report that this work is proceeding as scheduled. I am proud of the fact that Nava is the newest and most advanced state-of-the-art brewery in the world and that our brewery team's capabilities and commitment to quality are unparalleled. These best-in-class credentials are what we plan to bring to our new Mexicali brewery. Mexicali is the ideal site for a sister brewery to Nava. The technology and skilled expertise we plan to put in place are designed to ensure the highest quality and consistency for our consumers, and we will continue to update you on the progress there.

And now I'd like to focus on the operational results for our wine and spirits business. During fiscal 2016, we delivered overall earnings growth and margin expansion for our wine and spirits business. Our spirits portfolio produced solid results and our Canadian wine business exceeded its financial goals while outperforming the industry and growing market share for the year.

Sales growth in the U.S. benefited from organic volume growth and positive mix trends. We delivered exceptional results for our focus brands, which grew depletions 5% for the year, and we are reaping the benefits of our targeted investments in these brands. As a matter of fact, many of our focus brands were included in our list of significant milestones and accomplishments for our overall wine and spirits portfolio for fiscal 2016. 7 of our brands were featured on Impact's Annual Hot Brand list for wine and spirits, including Meiomi, which recently surpassed our very own Mark West as IRI's largest Pinot Noir for the current 12- and 52-week periods. And Kim Crawford recently emerged as the #1 Sauvignon Blanc in IRI channels.

Our products were also called out in the Beverage Information Group's 2015 awards, in which 4 of our brands achieved fast track status recognizing their impressive growth. Three were named rising stars, including one of our newest brands, Tom Gore Vineyards and 6 were listed as established growth brands, such as Mark West, Ruffino, SIMI and Woodbridge by Robert Mondavi.

The Beverage Information Group also recognized SVEDKA Vodka as a spirits growth brand, which this year achieved its place as the #1 imported vodka in the entire U.S. We plan to continue building on the success of some of our most recent new brands and line extensions to capitalize on the hottest trends in the market. Our newest red blend Ravage is a dark, fruit-forward red blend with structure and depth that has resonated well with consumers and will go national in September.

Ravage Cabernet Sauvignon performed very well during our exclusive testing period with a major retailer throughout last year, and we are pleased to expand the brand to wider distribution this spring. We will also continue to support the growth of Tom Gore Vineyards, the farmer's wine, that meets consumers desire to know the people and places behind the products they choose. Some of our existing new line extensions include our Robert Mondavi private selection, Bourbon Barrel-Aged Cabernet, which boasts an impressively rich profile that comes from a unique aging process in Bourbon barrels. And Ruffino Sparkling Rosé, which expects to capitalize on the success of our Ruffino Prosecco and the growing consumer taste for imported Rosé wines.

For the year, our spirits portfolio posted solid net sales growth of 6%, driven by the continued success of our flavor introductions for Paul Masson Grande Amber Brandy as well as SVEDKA Vodka. Casa Noble almost doubled net sales this past year and tripled distribution in terms of number of accounts. We are upbeat about the future growth trajectory of this brand. In fact, we are putting resources behind Casa Noble to support what we believe is a compelling growth opportunity. Some of these investments include fresh packaging, a new marketing campaign and continued cross promotion with Corona Extra during the Cinco de Mayo holiday season.

Our marketing campaign, the noble pursuit, features digital spots that highlights the quality and heritage unique to this fine tequila. We also plan to continue supporting our #1 imported vodka SVEDKA with the new addition to our line of flavors, Cucumber Lime. SVEDKA has been very successful in launching highly targeted, unique flavors that stand out from the vast options on the shelf today, and has proven it knows how to win in this space. We think Cucumber Lime will be a great addition to the track record of success and the initial consumer response supports our optimism.

From a strategic perspective, in fiscal 2017, our goal for the wine and spirits business is to grow profits ahead of sales and improve margins, which is reflected in our 2017 wine and spirits guidance of mid-single digit sales growth and mid- to high-single digits profit growth for the year.

So what will be the enablers of this goal? We plan to capitalize on the market leading growth of our recent high growth, margin enhancing wine acquisitions; Meiomi and The Prisoner. We will continue our targeted approach to investing in a subset of our focus brands in order to drive key brands that have scale, higher margin and the greatest growth potential. We remain committed to mix and margin accretive innovation and new product development and have several new products in the hopper, a few of which I just mentioned. And for the third consecutive year, we plan to execute price increases for select products within the portfolio.

And finally, we plan to continue to optimize COGS through global blend management initiatives, productivity improvements and lower grade cost. Overall, we are committing people, technology and resources to work with our wholesalers and retailers to execute growth for our wine and spirits business.

In closing, it has certainly been another exciting year at Constellation. Our achievements are many and have driven a year of strong financial performance. In fiscal 2016, we delivered industry-leading market results for our beer business, while continuing to enhance our operational platform in Mexico to support the growth of our iconic Mexican beer brands. Within our wine and spirits business, we maintained our focus on premiumization, innovation and brand building, which drove enhanced margins and earnings growth. We are very proud to have delivered another rewarding year of value to our shareholders. And I am pleased that our results can support a significant dividend increase in the coming year.

Overall, we remain committed to challenging ourselves in order to optimize the business opportunities that lie ahead.

With that, I would now like to turn the call over to David Klein, who will review our financial results for fiscal 2016 and the outlook for fiscal 2017.

David Klein

Thank you, Rob. Good morning, everyone. Fiscal '16 was another very exciting year with strong financial performance in which we generated over $6.5 billion of net sales and 9% net sales growth. We expanded operating margins in both businesses and improved our consolidated comparable basis operating margin by more than 200 basis points. We increased consolidated EBIT 18% and comparable basis diluted EPS 22%, and we produced $1.4 billion of operating cash flow, an increase of 31%. The strong earnings and operating cash flow growth helped our net debt to comparable basis EBITDA ratio finish at 3.8x even as we made significant capital investments in our Mexican operations, acquired Meiomi and Ballast Point and returned cash to shareholders with the initiation of a dividend and the repurchase of stock.

We expect fiscal '17 to be another strong year as we are targeting healthy net sales, EBIT, operating cash flow and EPS growth while we continue to invest in our world-class Mexican beer operating platform and increase our dividend per share by 29%.

Given those highlights, let's look at fiscal 2016 performance in more detail, where my comments will generally focus on comparable basis financial results. Consolidated net sales on an organic constant currency basis grew 8% for the year. We continue to see robust marketplace momentum for our beer business with depletion growth coming in over 12%.

Organic beer net sales increased 13% on organic volume growth of 11%. Ballast Point added $27 million of sales since joining our beer portfolio in mid-December.

Wine and spirits net sales on an organic constant currency basis increased 3%. This primarily reflects volume growth and favorable mix. As mentioned by Rob, Meiomi continues to demonstrate excellent marketplace momentum as the brand generated $74 million of incremental sales since joining the portfolio last August.

For the year, consolidated gross profit increased $373 million, up 14% with gross margin increasing 220 basis points. Beer gross profit increased $310 million, primarily due to volume growth, favorable pricing and lower COGS, and our beer gross profit margin increased 300 basis points to 49%.

Wine and spirits gross profit was up $63 million. This primarily reflects the benefits from the Meiomi acquisition and lower COGS. Wine and spirits gross profit margin increased 90 basis points to 42.2%.

Consolidated SG&A increased $90 million. This reflects marketing investments made primarily by the beer business. Corporate expense was up due primarily to higher incentive compensation expense and increase in payroll taxes associated with employee stock option exercise activity and investments to support the growth of our business, including the establishment of our Chief Growth Officer function.

Consolidated SG&A as a percentage of net sales remain constant at 17.5%. We continue to expand margins across the business as consolidated operating income increased $283 million and consolidated operating margin improved 220 basis points.

Beer operating margin increased 300 basis points to 34.9%, and wine and spirits operating margin improved 110 basis points to 24.8%.

Equity earnings increased $5 million due largely to strong results for Opus One. Interest expense for the year was $314 million, down 7%. The decrease was primarily due to lower average interest rates.

At the end of February, our total debt was $8.1 billion. When factoring in cash on hand, our net debt totaled $8 billion, an increase of $812 million since the end of fiscal 2015. This primarily reflects funding for the Ballast Point and Meiomi acquisitions, partially offset by our free cash flow generation.

Our net debt to comparable basis EBITDA leverage ratio came in at 3.8x at the end of fiscal ’16 versus 4x at the end of fiscal ’15. Our fiscal ’16 ratio does not reflect a full year EBITDA benefit for the Ballast Point and Meiomi acquisitions.

Our effective tax rate for the year came in at 29.6%, which was essentially even with last year.

Now let’s briefly discuss Q4 results. Comparable basis diluted EPS came in at $1.19, up 16%. EPS growth was impacted by our tax rate as our Q4 rate was 29.8% versus a 23.2% rate in Q4 last year, which reflected the benefit of certain foreign tax credits.

Beer business results for the quarter finished strong with organic net sales up 18% on organic volume growth of 14%. Net sales benefited from pricing in the overlap of certain sales adjustments recorded during the fourth quarter last year.

Beer depletions for the quarter grew 13%. This factors in Ballast Point depletions since the transaction close date in mid-December and the corresponding period last year. Ballast Point added a little under 1 percentage point to our Q4 depletion growth rate.

Beer operating income increased 29%, primarily due to organic volume growth, favorable pricing and lower COGS, partially offset by increased SG&A largely attributed to higher marketing spend.

Wine and spirits organic net sales on a constant currency basis were up 4% for the quarter primarily due to volume growth. Wine and spirits operating income increased 14%. This reflected the benefit of the Meiomi acquisition, organic volume growth and lower COGS, partially offset by higher marketing spend.

Now let’s review free cash flow, which we define as net cash provided by operating activities less capital expenditures. For fiscal ’16, we generated $522 million of free cash flow compared to $362 million last year.

Operating cash flow totaled $1.4 billion versus $1.1 billion for the prior year. This increase was primarily generated by the growth of the beer business. CapEx for fiscal '16 totaled $891 million compared to $719 million last year.

During the fourth quarter, we repurchased 246,000 shares of common stock for $34 million. Rob provided highlights of our agreement to acquire The Prisoner Wine Company brands. The cash paid at closing is expected to approximate $285 million. The transaction is expected to close by the end of April and to be $0.03 to $0.05 accretive to EPS for fiscal '17.

This provides a good spot to move to our full year fiscal '17 P&L and free cash flow outlook. We are projecting our comparable basis diluted EPS to be in the range of $6.05 to $6.35. Our comparable basis guidance excludes comparable adjustments, which are detailed in the release.

The beer business is targeting net sales and operating income growth to be in the range of 14% to 17%. This includes the anticipated incremental benefit from our — ***indiscernible*** — acquisition. We expect organic net sales and operating income growth to be in the 10% to 13% range. Our projections include 1% to 2% anticipated pricing benefit for our Mexican portfolio.

We are pleased that our beer operating margin finished fiscal '16 just under 35%, which came in line with our most recent guidance. Our fiscal '17 beer segment guidance has us targeting a flattish beer operating margin versus fiscal '16. In fiscal '17, we expect to see positive operating margin benefits from product pricing, ongoing favorability from foreign currency and commodities, glass sourcing and lower levels of finished goods purchased under the Interim Supply Agreement with ABI. And while we are pleased with our progress on our expansion activities at Nava, we still have much to accomplish as we continue to bring online and optimize new capacity.

Given these activities, we will continue to see a ramp up in depreciation expense, line commissioning and optimization costs and employee hiring. These costs, along with marketing investments and the consolidation of Ballast Point are essentially offsetting the margin benefits I just outlined.

Looking closer at depreciation and amortization expense for the beer segment, it totaled $62 million in fiscal '16. We expect that to increase by approximately 125% in fiscal '17.

For the wine and spirits business, we expect net sales growth in the mid-single digit range and operating income growth in the mid- to high-single digit range. This includes the anticipated incremental benefit from the Meiomi and Prisoner acquisitions. We expect organic net sales and operating income growth to be in the low to mid-single digit range, with operating income growth targeted to be ahead of sales growth as we are forecasting some mix benefits.

In addition, we expect our interest expense to be in the range of $325 million to $335 million. Our tax rate to approximate 29% and our weighted average diluted shares outstanding to approximate 206 million. This does not assume additional ship – stock repurchases.

We expect fiscal '17 free cash flow to be in the range of $250 million to $350 million. This reflects operating cash flow in the range of $1.5 billion to $1.7 billion and CapEx of $1.25 billion to $1.35 billion. Based on the midpoint of our guidance, we are targeting double-digit growth in operating cash flow for fiscal '17. This benefit is being more than offset by the planned increase in capital expenditures as our guidance includes approximately $1.1 billion to $1.2 billion related to our beer operational expansion projects in Mexico.

In the press release we issued this morning, we included an updated table summarizing the collective capital expenditure investments we are making in our Mexican operating platform and related timing. Overall, there is no change to the total cost estimate related to these projects. And fiscal ’17 and fiscal ’18 still represent the peak spending periods for this activity. We increased our quarterly dividend to $0.40 per share for Class A stock and to $0.36 per share for Class B stock. This represent a 29% increase in our dividend rate per share. As a result, we expect approximately $320 million in dividend payments for fiscal ’17.

In closing, we are very pleased with our fiscal ’16 financial performance and excited about the strong projected earnings and operating cash flow growth we are planning for fiscal ’17. We continue to strengthen our financial profile and have significant capital allocation flexibility as we remain focused on operating in our targeted 3 to 4x leverage range.

With that, we are happy to take your questions.

Question and Answer

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

Dara Mohsenian
I just wanted to flush out the reasoning for the potential Canadian wine IPO. It’s a small piece of corporate EBIT. So it seems like it won’t have much direct valuation impact. Is the motivation there more to potentially highlight the U.S. wine business as undervalued here or are there other reasons behind it? And any thoughts in general around the notion of going full monty and splitting up the entire wine and spirits business from beer down the road? It’d be helpful for any commentary there.

Robert Sands

Yes. So the Canadian IPO is really assuming that it occurs, intended to achieve a number of things. They are #1, we think that sort of buried in the whole company in the Wine & Spirits division, it doesn't really get much visibility from a value perspective. And that if we treat it more as a stand-alone entity, it – the fact that it is a very high-performing business in Canada will become a lot more visible. That's #1. So we think that, that will be positively reflected in its valuation and our valuation overall. #2, it's obviously also a capital allocation opportunity for us. As I said, an IPO of part of the Canadian business will enable us to continue to manage our debt and keep it at the levels that we think are optimal for the company as we also embark on some of our other strategic initiatives that are driving our very positive results in the wine and spirits business. Meiomi is an example, Prisoner is an example, our investments behind driving premiumization in the portfolio with our other brands, and our NPD initiatives. So we see the Canadian IPO is helping us to potentially achieve a lot of positive things. It is an interesting business. It's got strong growth. It – we built and improved market share in Canada. So we think that it represents in many respects a great stand-alone opportunity. As far as its implication to our strategy for the rest of the wine and spirits business, there really is no implication there. The wine and spirits business – our wine and spirits business remains very strong as you've seen in the results. We had fantastic leverage – P&L leverage in that business this year. We had tremendous margin expansion in that business, even inclusive of Canada, which is a bit lower in margin than the overall business. We posted operating profit margin in the mid-20s, which is fantastic for any business, in any industry, a mid-20s operating profit margin with the kind of leverage and growth in EBIT that we're getting in that business. So really no implications relative to the rest of the business, but we think that – as I said, as a stand-alone business, it's a great opportunity from an investment point of view. So that's basically the thinking there.

Dara Mohsenian

Okay, that's helpful. And then on the beer margin side, the commentary made sense in terms of the puts and takes looking at the upcoming fiscal year. But it seems like some of those favorable items you mentioned like the glass efficiency, pricing, top line leverage, et cetera, would be a lot bigger than some of the negatives that you mentioned, particularly given the strong gross margin momentum in Q4. So is the flat guidance just conservatism with greater uncertainty than you usually have with the Nava ramp-up? And can you give us a sense of some of the negatives you mentioned like the Ballast SG&A, the higher marketing and hiring?

David Klein

Yes. So generally, Dar, the – first of all, there are a lot of moving parts as it relates to a buildup of our operating margin in the beer business. And in particular the work that's being down at Nava. So as we said for the last year, really, we're going to see headwinds in margin expansion at Nava as a result of incremental depreciation expense, line commissioning cost, employee hiring as we bring capacity on, but we don't necessarily get the throughput through the facility. I would say that we – while we also are benefiting from stepping away from the ISA with ABI, as you'll recall, we did extend, although at a lesser amount in terms of case volume, we extended the ISA with ABI, which dampened some of the near-term margin upside that we may have otherwise seen. And then the last point really being Ballast Point. Now in terms of craft performers, Ballast Point is probably one of the best performing crafts from a financial profile perspective, but it still is dilutive to our overall operating margin of our beer business.

Operator

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

Russell Miller

This is Russ Miller on for Nik. Could you more specifically compare the top line growth profiles of the U.S. and Canadian wine businesses?

Robert Sands

Russ, we're struggling to hear you, actually.

Russell Miller

I apologize. I was wondering for more color, if you could compare the top line growth between the U.S. and Canadian Wine businesses?

Robert Sands

Compared to what, Russ? Higher in Canada than in the U.S.

Russell Miller

Okay. And then as a follow-up, what are some of the key areas of focus for Bill Newlands as he takes over leadership of the wine and spirits business?

Robert Sands

Well, it's the things that have been driving and that drove the results this year. He's got to continue to focus on those same things. So it's all about premiumization, it's about driving mix, it's about driving our higher-margin brands and our newly acquired brands like Prisoner, like Meiomi, driving the organic growth of our really high-margin Focus Brands, good examples, being Kim Crawford. That's #1. NPD continues to be really important in the beverage alcohol business. NPD is providing almost all of the growth across any category in wine, beer and spirits. Our beer business tends to be a little bit different than that because we happen to be sort of in the main sweet spot of growth with our Mexican portfolio and our craft portfolio. But continuing to drive that NPD pipeline is again, one of his main strategic initiatives. And as I said, our new acquisitions, Meiomi, Mark West is only a few years old, Prisoner, these are all key to our premiumization and strategy and driving mix. And again, this is the sweet spot of growth in the beverage alcohol business.

So it's pretty straightforward. And then it's sort of I'd say day-to-day bread-and-butter stuff, COGS, control over COGS, cost and growth has been an important driver of our financial results there as well as other expense items in the P&L. So he'll continue to focus on those things as well. Good news is that he's doing a really great job and we're extremely optimistic, obviously, given our guidance for next year that we'll continue to be very successful in those areas.

Operator

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

Judy Hong

So first, on beer sales guidance for fiscal '17. I guess historically, it seems like you guys sort of were a little bit more conservative at the outset of the year in terms of looking at the beer depletion. And it looks like this time, the 10% to 13% organic sales guidance for beer, lapping some of the tougher comps in the back half seems actually not as conservative. So just wanted to understand maybe a little bit more just in terms of, is it really the momentum behind all of your brands that you're seeing that gives you confidence? How big a factor would continued distribution gains on the cans be – really a factor in terms of driving that sales growth momentum in '17 for your beer business?

David Klein

Well, Judy, I think it's – of the things you mentioned around beer growth, it's both of those things. We think the brands continue to have very strong momentum. We continue to see that even as we're into the New Year in terms of IRI. There is a lot of distribution gain activity – or a lot of space we can gain in terms of distribution in the coming year. We do expect continued growth of cans. And again, our objective remains to drive our can volume up in aggregate into that mid-teens kind of range of total volume over time. You know I would – I do want to address your point around the level of conservatism in our guidance. I would say that we've taken the same approach this year to guidance as we've used in the past. We're trying to give our best estimate as to where we think the business will land on the year, and I think that's reflected in the numbers that we produced. And again, I think, you do need to focus on the organic depletion number, which is – or the organic net sales number, which is the 10% to 13%, because I think combined with our 1% to 2% net pricing guidance, you get to a fairly respectable but achievable volume number.

Judy Hong

Got it. Okay. And then I guess the second question is around your capital allocation/acquisition strategy. So it seems like maybe every quarter – or maybe just more recently, we're getting a bit more just in terms of some of these acquisitions. Certainly in 2017, just given where your leverage level is, you also have a lot of dry powder in terms of continuing to either return cash to shareholders versus acquisitions. So is there a big pipeline in terms of these potential acquisitions that you see across both high end and craft spirits and beer side of the business? If those don't materialize, would you be willing to return even more cash to shareholders in 2017? And what's embedded in terms of your guidance?

David Klein

So I would say, Judy, we are seeking all the time to methodically and consistently drive shareholder value. And so we look at all of the tools in the toolbox that we have to do that. And yes, in some instances, it's an acquisition like The Prisoner or Meiomi and I would say that early returns on Meiomi and Ballast Point are very positive from a shareholder return standpoint. We expect to see the same results from an execution standpoint from The Prisoner transaction. You can see that we do remain committed to returning cash to our shareholders; as evidenced by a 29% increase in our dividend. And we will continue to look at share repurchases when we can stay within our leverage – our targeted leverage range, and we can be opportunistic in the market. And remember that the guidance we gave, assuming 206 million shares outstanding assumes no additional share repurchases at this point.

Operator

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

Bryan Spillane

So first, just a housekeeping question. In terms of Prisoner, are you going to finance that with debt with the revolver, or just how are you financing that?

David Klein

Yes, that's a hard one because of the fungibility of cash. We will not be going to the market to borrow for – specifically for The Prisoner. We will take it of the revolver or cash on hand.

Bryan Spillane

Okay. And in terms of the accretion estimate that you gave, does that assume that you're just going to use cash in hand?

David Klein

The accretion estimate assumes kind of an average borrowing rate, actually. So I guess you could imply the revolver from that when you're doing your math.

Bryan Spillane

Okay, that's helpful. And then in terms of just sort of the flow of beer shipments for 2017 – for fiscal '17, given how fast the business is growing and the capacity constraints that you have, are we going to see maybe a different order pattern this year, where wholesalers are just going to build more inventory early in the season so that you take less, take some pressure off the peak?

David Klein

Yes, I think – I don't think you'll see anything different from previous years because we've had this pressure, if you recall, for the last couple of years. And we do a lot of work with our distributor partners to plan inventory levels so that we optimize the freshness of our beer, while making sure that we don't stock out at retail. So I don't think you'll see a dramatic shift from where we've been in the past.

Bryan Spillane

Okay. And then just one – I'll just sneak one more. In terms of the Canadian partial IPO, have you considered or would you consider either just a tax-free spin to shareholders and/or an outright sale? Like why a partial IPO versus maybe some of the other options that might also create value?

Robert Sands

Yes, because it's call it a middle-of-the-road approach, right? It gets us some and some, right? The Canadian business is a great business. It enables us to continue to have the Canadian business and to utilize it as a distribution platform for our U.S. brands. On the other hand, it will create more transparency into the performance of this business and therefore, we think that it will be positive from a valuation perspective and then of course, there's the proceeds from the sale of a portion of the business, right? Which, as I said in my talk, will enable us to continue to manage our debt levels appropriately and fits very nicely into our overall capital allocation strategy to enable us to do the kind of things that David was just talking about, which include some of our strategic initiatives as well as, as David pointed out, methodically returning capital to shareholders in the form of dividend increases as well as share repurchases. We did recommence our share repurchasing activity this quarter. And although we didn't include it in our guidance because we don't know what we're going to do necessarily, because we act opportunistically there, it's certainly a major element of our capital allocation strategy, as I said, to continue to return money to shareholders in both those manners; dividend increases and share repurchases. So it all fits together pretty nicely without sort of disassembling the business.

Operator

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

Vivien Azer

So to follow-up on Bryan's question first, please. In terms of your inventory levels on the beer side, I was a little bit surprised actually not to see inventories build back up; given what happened in the third quarter. So where are we in terms of your inventory levels right now?

David Klein

Our inventory levels from a days on hand, right, which reflect year-over-year growth. Our inventory levels from a days on hand standpoint are consistent with where we've been in previous years at this point in time, and that's both within our network and at the distributors.

Vivien Azer

And is that a level that you are comfortable with, or would you like to see that come up a little bit given the momentum of the business?

David Klein

We're comfortable with that level.

Vivien Azer

Okay. Perfect. My next question has to do with Ballast Point. Can you comment at all on how much capacity there is in particular at Miramar? And I ask it because given the fast top line growth, while the business is dilutive today, I suspect a lot of that has to do with the fact that it's much more expensive to ship West, to East than vice versa. So how are you thinking longer term about incremental capacity, and where would you put that?

David Klein

So first of all, I will say that Miramar has capacity for about 10 million to 12 million cases and then beyond that, I think, we've said in the past that – and Ballast Point has said this – Jim Buechler and his team have discussed looking for a location for an East Coast brewery at some point in the future.

Vivien Azer

Is there any rationale to accelerating those plans to capture some better margin, given shipping rates?

Robert Sands

I would say – this is Rob, I would say that, that was being heavily investigated and pursued even prior to the acquisitions. So the answer is that it is a strategic initiative as we speak.

Operator

Your next question comes from the line of Caroline Levy of CLSA.

Caroline Levy

A couple of questions. One, have you considered taking more pricing in beer, given the capacity constraints and given the need to pull on the AB supply?

Robert Sands

Look, our position on pricing, our strategy remains the same. We really make our pricing decisions very – from a very granular perspective, market-by-market, case-by-case, city-by-city. I think fundamentally, the answer to your question is that we don't necessarily see anything on the horizon that dictates that we should be taking a different approach to pricing than we have in the past. It's going to be sort of based on what we think the market will allow and our competitive position. And we wouldn't use pricing to slow down the business and potentially damage the health of the brand. I mean, I'd say that right now.

We have, we believe, the capacity necessary to meet the demand in the marketplace. But pricing is an important element of our growth strategy too. So we're going to continue to take the very balanced approach that we've been taking in the past.

Caroline Levy

Got it. Okay. I know that you're looking to enforce some of your contracts a little more than you have in the past with distributed in terms of what kind of promotional spending they should do. And I'm wondering as you build up your 10% to 13% organic growth, how much is driven by expected better performance out of distributors? And sort of separate but the same, what growth rate are you looking for, for the Corona brand, which just had such an exceptional year last year? Are you looking for high single-digits still on Corona?

Robert Sands

So the answer to your first question, I think that there is a bit of a misnomer there. We clarified some points in our distributor contracts and this and that. Recently, we talked about that at our GNS, our Gold Network Summit. It's really, I would say doesn't amount to much. We're not – I wouldn't call it enforcing our contracts in a particularly different manner. We continue to have the same approach with our distributors, which is very much a partnership approach, okay? Our proposition to our distributors is pretty simple, okay, which is like any smart business people, you should invest in the higher margin, higher growth parts of your business that can develop – that's going to drive your margins and your business for the future and we think that it's our portfolio that's the squeaky wheel that ought to get that grease. I mean, it's really as simple as that. And, by the way, it's not a hard sell, okay? They all get it. They get it very easily and they can see it in their own financial results; that the key in many respects to their future form any material perspective is in our portfolio, because the other large elements of their portfolio are flat to down. Okay, so all the action is in our brands. And to some degree, craft, of course, which is we're playing in that as well. So I don't think that there's anything particularly different going on with our distributor network. We're not insisting upon different terms than we have in the past in any material sense. And then your other question was how fast have you grown?

Caroline Levy

How fast did you…

Robert Sands

Yes, we don't really break that out. But needless to say, we're getting very strong growth in Corona, and we continue that growth – continue to expect that growth to continue, right, driven by the can, driven by continued execution in the marketplace even for 100% or a really well-distributed brand, there remains to be distribution opportunity even for a brand like Corona when you look at the various SKUs and packs and this and that, that we have. I mean, it's not 100% distributed in that regard. And then look, we're increasing our marketing activities ahead of the market, very cautiously because the most critical thing we have is to maintain the health of these brands. And therefore, we think that continuing to increase our share of voice in building these brands is important. And then we also have great execution in that regard. I think that our advertising and our marketing, in general, and our strategy there is really working. So I mean, I suppose you can be increasing bad advertising, which isn't going to get you anywhere, but we're increasing really, really good advertising that resonates with the consumer, and we know that we get a fantastic return from this. So – because we measure it.

Operator

You're next question comes from the line of Tim Ramey of Pivotal.

Timothy Ramey

Your cash tax rate continues to be really low and there's some downward movement in the book tax rate. I assume that's all timing differences on cash or tax depreciation. But if we think about the short term, 2 to 3 years out, how will those 2 numbers trend if you have any insight into that? Or does book move towards cash or does cash move towards book, I assume?

David Klein

Yes, so, Tim, I think one of the issues that we wrestle with and you wrestle with and every corporation in America is wrestling with at the moment is all of the change that's happening both domestically and internationally from a tax policy perspective. And so you can see the benefits that we've had in recent years from certain foreign tax credits as well as from the benefits of the tax treatment of stock option expense. And so that has helped push our number down in recent years, right? And then in terms of our cash versus book, I would say how that all resolved itself on an ongoing basis, I think, is going to depend upon the changes in overall tax policy. I would say that we expect our cash taxes to remain in the low 20s for the foreseeable future.

Timothy Ramey

Okay. And then just one other one on CapEx. I'm assuming that 2017 is the peak CapEx year, but it's not super clear what '18 should look like and that's at least in the forecast horizon now. I assume it's lower than '17. Can you give any clarity on that?

David Klein

Yes. A little bit I would say that '17 and '18 as we said will continue to be our peak years. It's hard to really say at this point how things will flow between say '18 and '19 versus '17. So other than '17 and '18 will be our heaviest year, I can't give further guidance.

Operator

Your next question comes from the line of Rob Ottenstein of Evercore.

Robert Ottenstein

A couple of questions. One, could you review for us your overall M&A strategy as it pertains between beer, spirits and wine. And is it primarily opportunistic? Obviously, there's strategic elements in terms of mix. And but also is there any sense given that you are the – really the only total beverage alcohol play company in the U.S. Longer term, would you be looking for a more equal mix in terms of the businesses between beer, wine and spirits?

Robert Sands

Well, I think that the answer to your question is again kind of some and some. It is obviously opportunistic in that you can't necessarily predict that there's going to be a willing seller of the things that we would like to acquire at the price that we would like to acquire it. So it is opportunistic in that regard. It's also strategic in that clearly premiumization is an important part of the strategy, whether it's wine, beer or spirits. Margin enhancement is important to us as we look at various opportunities across the 3 segments, which goes back, of course, to the premiumization element of the strategy and also obviously, buying things that are sort of in the right place at the right time is important to us. You look at wine and clearly, all the big growth in wine right now is in these higher price points like The Prisoner. If you look at beer, it's almost the same in that it's better beer and higher price points that are driving that market. I think Ballast Point is a great example of that. I mean, that's sort of like at the highest end of the beer market and it's got the fastest growth of any major craft brewer. It's almost a little contradictory in the sense that it would be the highest price and have the highest growth, but that's what makes it as attractive as it is. And then spirits is an interesting segment as well. We made a couple of small acquisitions in the craft spirits space over the last 12 months, one called Crafthouse Cocktails, where we bought a minority interest in a brand that we think has the potential to be a very fast-growing, high-margin business. And then another bourbon brand recently, again, that we think has the potential to be high-margin, high-growth too. But – so spirits, I'd say, is a little less developed from an opportunity point of view right now. The global spirits brand picture, I don't necessarily see us really playing in that. It's not of great interest. It's a market that's somewhat under pressure even in the segments that are growing pretty well, i.e., brown spirits and bourbon. But it's not really our sweet spot. But craft spirits, much like craft beers, it's pretty interesting. But much more developmental in that the craft spirits business is much less developed than the craft beer and the brands are even smaller, okay, than in craft beer. But we look at that segment too. I'll just add one other thing. Our strategy as it relates to capital allocation, acquisition really hasn't changed. Okay, we're not an acquisition bender or anything to that effect. We're going to continue to be highly strategic, look at opportunities as they arise as we always have. Obviously, our strategy has changed a lot over the years. Now it's really about – where we've taken advantage of opportunities – it's about buying sort of tuck-in, high-growth, high-margin, easy-to-assimilate type opportunities. So I guess, as I said, the answer to your question is some and some, it's strategic but it's also opportunistic as we go forward here. We intend to maintain more importantly, our discipline on capital allocation, all the things that we've said being a priority, reducing debt, returning dollars and value to shareholders, and making occasional strategic acquisitions as they come along. And maintaining our debt levels sort of in that 3 range where we've said.

Robert Ottenstein

That's great. And just in terms of the targeted leverage ratio, I think, you've said 3.5% to 4%, given the outlook in terms of CapEx spending as well as your very strong cash flows, how – for the right acquisition would you be willing to go much over 4x in the next year or so?

Robert Sands

We don't have any plans in that regard.

Operator

Your next question comes from the line of Bonnie Herzog of Wells Fargo.

Bonnie Herzog

I just have a question or a follow-on question on beer pricing. Clearly, your net beer pricing was strong in Q4, and I guess, I was hoping you could drill down between how much was from rate versus brand mix versus channel mix? And then assuming you saw positive channel mix, how much of that was driven by greater distribution in the high-margin C store channel?

David Klein

Yes, Bonnie, most of the pricing benefits that we've seen are really just overall price across the portfolio, across markets. And we would have expected it to be fairly heavy in the previous quarter because of the price increase that we implemented in October of this past year.

Bonnie Herzog

And then are you seeing increased penetration of the C store channel? I know that's been a focus of yours as an opportunity?

David Klein

Yes, there – we continue to improve in that category.

Bonnie Herzog

Okay, then maybe just one final quick question on your tail [ph] Brands. I was just hoping you could give us a sense of how some of the tail [ph] beer brands performed last year? And then how meaningful you think these can become to your overall portfolio in the next years?

David Klein

Yes, we think that we will see growth in the mid- to high single-digits.

Operator

Your next question comes from the line of Mark Swartzberg of Stifel.

Mark Swartzberg

I guess 2 topics, 1 beer, 1 Canada partial IPO. On beer, David, really nice progression with the gross margin over the course of fiscal '16, about 300 bps up and then on an annual basis. And then in the fourth quarter, we saw it about 380 bps up. So I'm wondering if there's anything unusual in that progression and the progression which improved as the year progressed as we think about how to balance the gross margin in our fiscal '17 estimates and the level of SG&A increases. And then kind hand-in-hand with that, we saw like a 40% increase in SG&A in the quarter, $35 million, was there. Can you give us some sense of what was in that $35 million number?

David Klein

Yes, so from a margin standpoint, the fourth quarter was really impacted primarily by price and mix. And I guess, we would have again, expected that because of fourth quarter being when we implement our price increases we would have benefited from the favorable FX in commodities environments, which we benefited from throughout the course of the year, but there was strong tailwind from that in Q4 as well. And your other question, Mark?

Mark Swartzberg

Was the – that benefit you just described in the fourth quarter was in a sense eaten up by a relatively large increase in SG&A of $35 million, 40% increase. Can you just speak to what was in that $35 million number?

David Klein

So in terms of total SG&A, we would be – we saw increases in marketing. We saw increases in compensation expense. We had some increases that would have come into our number on a year-over-year basis as a result of the Ballast Point acquisition.

Mark Swartzberg

Got it. Got it, got it. Okay. Okay, great. And then with the Canada partial IPO I mean, kind of the elephant in the room, of course, is partial and IPO in Canada being in this continent called North America like. Is this the beginning of something larger? And I realize you're not going to say, oh yes, we intend to IPO our larger wine and spirits business eventually. But is it unreasonable to think that this creates optionality for you should you decide to ever go down that road? And then kind hand-in-hand with that, because it is obviously a leading question, it seems to me that all the merits that you're offering for Canada in terms of how it's performing and so forth are merits that you could offer for your U.S. business even to a greater degree? So just help me with kind of what's wrong with that thinking, or what's right about that thinking?

Robert Sands

Yes, I think there was what – right – we'll start with what's right about it, okay? Just to be nice. I think, what's right about it is yes, I think that this kind of thing does provide a greater degree of optionality for us, of which it's precisely that: Optionality, we don't – other than what we currently have planned – we don't necessarily – we're not planning anything else but clearly it gives us more optionality. As it relates to the rest of the business, I think that you really can't draw any implications from that. We kind of look around the business and we see what we think are the opportunities. And again, this fits into our – sort of our whole capital allocation strategy, right? Managing debt, being able to return money to shareholders through dividends, stock repurchases as well as being able to make some strategic acquisitions from time-to-time. So we're just trying to be prudent in the number of – I'd say, we're trying to be transparent. We're trying to show where we think if there's value that isn't necessarily recognized and then we're also trying to be prudent in our, I'll say, use of capital and where that capital comes from. Does that make sense?

Mark Swartzberg

Great. Yes, makes a ton of sense and really, I don't think anyone was looking for a Canada IPO. So it's impressive to see you guys' kind of offering that optionality.

Robert Sands

Well, I appreciate that.

Operator

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

Stephanie Benjamin

This is Stephanie on for Bill. I just have a quick question and I apologize if I missed it. Did you gave what the sales base for what The Prisoner acquisition was?

David Klein

No, we didn't other than to say that The Prisoner brand themselves in aggregate represent about 175,000 cases.

Stephanie Benjamin

Okay. And then maybe you could kind of give a little bit of an update on the Meiomi acquisition that you did, and how it's tracking along with your plans and any opportunities you may have with that going forward?

David Klein

I would say from my perspective, Meiomi continues to track actually better than our original expectations when we did the acquisition. The most recent 12 weeks or at least the 12 weeks in IRI that coincided with the end of our fiscal year had it up – the brand up 88%. And as we said when we originally spoke about the transaction, it has one of the best gross profit margin profiles within our entire wine portfolio and we've continued to see that and in fact improved upon that a little bit. So we're very pleased with how we've progressing with Meiomi.

Stephanie Benjamin

Great. And then just kind of a follow-up, and then – so looking at Prisoner's they would have kind of like a similar margin profile kind of higher than the corporate average but not so high as Meiomi? Is that kind of the right way to look at it?

David Klein

That's the right way to look at it. It probably does actually line up fairly well with Meiomi.

Operator

Your final question comes from the line of John Faucher of JPMorgan.

Peter Grom

This is Peter Grom on for John. Just one quick question for me. As you guys build up and acquire more wine assets are you going to need to add more capacity similar to what you guys did on the beer side?

David Klein

We wouldn't expect to. Our intention for the business is to continue to milk the low end of the portfolio and to drive growth and increase profitability at the high end of the portfolio. So we will continue to have that consistent capital requirement in our wine business that we've seen over the past several years, but we just – our intent is to make it work harder.

Operator

Thank you. I will now return the call to Rob Sands for any additional or closing remarks.

Robert Sands

Okay. Well, thank you, everyone. As we wrap up our discussion of the fourth quarter and fiscal ’16 results, I want to reiterate how pleased I am with our year-end success and how we are positioned for continued growth and financial strength in fiscal ’17. As our guidance shows, we are confident in our ability to continue achieving growth, and we are firm in our commitment to deliver shareholder value. We look forward to the next time we speak with you in early July, when we will share the results of our first quarter of our new fiscal year. But before then, we hope you’ll pick up a few of our fine products for your spring celebrations, including Cinco de Mayo and Memorial Day weekend and speaking of Cinco, you can look for us at the New York Stock Exchange on May 5, as we officially kick off our Cinco Happy Hour by ringing the closing bell. Thanks, and have a great day.

Operator

Thank you for participating in the Constellation Brands’ Fourth Quarter and Full Year 2016 Earnings Conference Call. You may now disconnect.