# Q1 2026
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## Presentation

### Operator

Greetings, and welcome to the Constellation Brands Q1 Fiscal Year 2026 Earnings Conference Call and Webcast. — ***Operator Instructions*** — As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Joseph Suarez, Vice President, Investor Relations. Please go ahead, sir.

### Joseph Suarez

Thank you, Kevin. Good morning all, and welcome to Constellation Brands Q1 Fiscal '26 Conference Call. I'm here this morning with Bill Newlands, our CEO; Garth Hankinson, our CFO, and Blair Veenema, our new Vice President of Investor Relations, who will assume leadership of the function after today. Blair brings great expertise to the role. He began his career as a buy-side equity analyst and has worked across our corporate development, treasury and beer commercial finance teams for the last 10 years. I will work closely with Blair over the coming weeks to ensure a seamless transition of the function.

We trust you had the opportunity to review the news release, CEO and CFO commentary, accompanying quarterly slides and a recently updated annual brand appendix slides made available in the Investors section of our company's website, www.cbrands.com.

On that note, as a reminder, reconciliations between the most directly comparable GAAP measures and any non-GAAP financial measures discussed on today's call are included in the news release and website and we encourage you to also refer to the news release and Constellation's SEC filings for risk factors that may impact forward-looking statements made on this call.

Before turning the call over to Bill and Garth, please keep in mind that as usual, answers provided today will be referencing comparable results unless otherwise specified. Lastly, in line with prior quarters, I would ask that you limit yourselves to one question per person, which will help us end our call on time.

Thanks in advance, and over to you for questions.

**Question and Answer**

**Operator**

— ***Operator Instructions*** — Our first question today is coming from Dara Mohsenian from Morgan Stanley.

**Dara Mohsenian**

So just wanted to discuss your confidence in the unchanged full year Beer revenue growth outlook as well as margin guidance. So we've obviously seen some industry weakness ramp up in May and June. Your depletion decline in fiscal Q1 was similar to Q4 if you strip out one less day. I understand that. But presumably, some of this industry pressure ramped up towards the end of the quarter in June, at least in the tracked channel data.

So can you just discuss confidence in your Beer volume growth outlook? And at some point, it implies you move back to depletion growth. Maybe just give us some more context on a quarterly basis when we should start to see that. And then also just on the margin side, with incremental aluminum pressure with the higher tariffs, can you talk about what sort of the offset is to allow you to still deliver profitability on a full year basis on the beer side in line with what you were expecting previously?

**William Newlands**

Sure. Dara, why don't I start and Garth will come in with the margin question. I think it's important to point out that the quarter was as we expected. We saw a significant amount of consumer concern that has continued from the past quarters into this quarter, but this quarter was as we expected. Recall, this is going against the strongest quarter that we had last year. Q1 was what I would describe as a normal quarter for us. And as you pointed out, there was one less selling day in the quarter.

I think the important thing to point out is sequential improvement is required for us to accomplish our guidance, but it's not, not predicated on significant consumer change. We're going against much easier comps as we head into the summer and scanner data. You may recall that in July of last year was when things started to decelerate both for us and for the overall industry. So we're going against easier comps as we progress into the summer months.

Garth, do you want to touch on the margin point?

**Garth Hankinson**

Yes. I'll touch on the margin point. But before I touch on the margin point, again, as Bill said, we feel confident with our outlook for the year, which is why we affirm guidance, and we haven't seen any changes in consumer behavior. That being said, there are still some macroeconomic factors, if you will, that we continue to monitor, and there continues to be some uncertainty in the macro backdrop. We've seen from our banking partners and from the Fed, some reductions in expectations around GDP growth as well as some softening in expectations with inflation, unemployment, and interest rates. That being said, there's a lot of guesswork, I think, more so in this year's forecast as it relates to things like the impact of potential tariffs or the potential impact of tariffs and the potential impact of unemployment of government-related layoffs. So again, just a fair amount of uncertainty as we go through the year.

On the margin front, we feel good about our ability to deliver margins in line with what we laid out in April, specifically to the incremental tariff that went into effect in June. To be clear, that did not impact our Q1. Going forward, we think that the impact of that is going to be roughly $20 million. As a reminder, what was announced earlier in the year was an impact of about $30 million.

It's obviously less for us given that it's one quarter into the year or the incremental is less for us because we're one quarter into the year. And from a seasonality perspective, first quarter is the highest quarter. Volume-wise, we don't expect that we're going to be able to fully offset this incremental tariff. So that will be about a 20 basis point hit, but we still believe that we can deliver margins in line with what we outlined in April.

**Operator**

Our next question today is coming from Nik Modi from RBC.

**Nik Modi**

Bill, I know this might be a hard question to answer, but just I know you guys are doing a lot of work regarding the Hispanic consumer. It almost feels like it's getting a bit worse in terms of just – at least from the headlines of the rates and kind of where they're targeting consumers in normal places of shopping. I'm just curious like, there's got to be a breaking point at some point. And obviously, this is a big driver that is weighing on your business.

I'm curious if you have any perspective on like how long do you think this might go on? And again, I know this is a hard question to answer. Do you have any perspective from the administration in terms of when some of these rates will start to calm down? Like any perspective around that, I think, would be helpful.

**William Newlands**

Sure. Thanks, Nik. As you know, you're right, this is very hard to call as to what the consumer reaction is going to be going forward. I think the important part that we continue to look at is, first of all, our loyalty is very strong and remains very strong with the Hispanic consumer base. Our loyalty is increasing in the general market, and we are continuing to invest against our business to support the consumer as they progress down this path.

Importantly, our brand health measures remain as strong as they ever have. We'd be – we'd be hard pressed to tell you when you see a fair amount of change. Both Hispanic and non-Hispanic consumers are concerned about inflation and about cost structure. But I also would point out that the percentage of alcohol in the basket has remained constant even though the basket has gotten smaller relative to what consumers are doing with consumer goods. So our focus has been on control the controllables.

We have seen high single-digit share gains in the shelf, our buy rates. While visits are down, spend is up when people visit and when they actually go to the stores. NPD continues to be an important part of what we do. We're pleased with the development of Sunbrew. It's ahead of what we had expected. And as I said earlier, we continue to invest against the business. So our focus continues to be monitored carefully where the consumer is and control the controllables, do everything we can possibly do. So as the consumer hopefully returns in the near term to more normal behavior, we're there and ready to take advantage of just that.

**Operator**

Our next question is coming from Lauren Lieberman from Barclays.

**Lauren Lieberman**

I just want to talk a little bit about marketing. It was interesting to see stronger marketing in the quarter. So I was curious if you could talk a little bit about marketing cadence this year versus last. And then also in that standpoint, it feels like not so much from a pricing standpoint, but from a marketing standpoint, the competitive landscape has picked up, and you've got Mic Ultra that's been a fast-growing brand for some time, the only other fast-growing brands alongside Modelo, has really picked up its activity. And I think picked up, it seems sort of the target market they're going after.

So I just was curious if you could talk a little bit about kind of brand competitiveness, your marketing efforts, not just quantum and timing, but also kind of thoughts around any changes or differences in targeting and what you're seeing in the competitive landscape?

**William Newlands**

Yes, you bet. So I think it's important to point out that because of seasonality heading into the summer, Q1 is always slightly higher in terms of our marketing investment versus the rest of the quarters. But I think it's also important to point out, Modelo and Corona are the #1 and the #2 share of voice within the Beer sector for marketing.

We continue to invest against our brands to build long-term success for those brands. And we're investing in places that we think are high impact: football, soccer, Major League Baseball, things that are live, things that are action-oriented and things that tend to be beer occasions.

So we're going to continue to invest against our business. Our fundamental belief is, as I said on the prior question, our brand health metrics are very strong. Our intent is to keep those metrics as strong as they are, if not to improve those. And part of the way we will do that is to continue to invest against the consumer. So as the consumer begins to revert to more normal behavior, whenever that occurs, we're going to be in a position to win.

**Operator**

Our next question today is coming from Chris Carey from Wells Fargo Securities.

**Christopher Carey**

So I was thinking about the investor presentation, at the Investor Day, and there's a lot of pride in the fact that the portfolio is so focused and you're gaining share in the category behind such a focused portfolio. And I think when you look across some of your peer set, there's actually been an attempt to continue to diversify the portfolio to perhaps hedge against some of these situations, if the floor, the slowing growth or market share loss, it's offset by something else, right? You've seen that with some of your competitors.

Does this moment in time, give you a bit more credence to think about maybe investing or diversifying the portfolio, however significant that may be in the coming years to give yourself a bit more diversification against such events? And then within that, can you just talk about how elevated maybe Pacifico will become now because it's been such a reliable growth driver. Can you accelerate that growth even more? So just some thoughts there would be helpful.

**William Newlands**

Yes, you bet. Well, first of all, I think it's important – if you think about what has changed versus the Investor Day, a lot of things happen. Non-alc didn't exist at that point in time. Today, it's the #2 share gainer in a growth category, the non-Alcohol sector. Oro didn't exist. You probably heard that we are adjusting our Oro pricing to go after high-end light beer, where we see competitive opportunity for us to succeed.

We introduced Sunbrew this year, which is ahead of our plan, goes after a consumer who's interested in flavor. I've said on prior calls, we're very pleased with the fact that our share of sales in LDA 21- to 25-year-old consumers is twice the average of the sector. So we're continuing to bring in new, younger consumers into the equation.

— ***indiscernible*** —, one of the best – single best — ***indiscernible*** — that we have did not exist when we had Investor Day. So all of those things, I would argue, are part of our innovation agenda. As we've said, we can see between 20% and 40% of our growth profile in any year, reflecting from new products, and we would expect this year not to be any different along that line, but we're continuing to be focused on how we can win more consumers on more occasions.

Relative to your question on Pacifico, obviously, Pacifico continues to be very, very strong. But what's exciting to us is, despite the fact that Pacifico is the #2 brand now in L.A., where it's obviously a huge brand, 50% of the growth profile that's occurring on Pacifico is coming from outside of California. So you're starting to see significant increase and growth of that brand around the country, and we expect to put some fuel on the fire, if you will, around that brand.

We think it's a great opportunity. It's demographic profile is somewhat different from our other brands. And we think that's going to be an important growth driver and an important share gainer in terms of shelf positions for us as we move forward.

**Operator**

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

**Kaumil Gajrawala**

I guess I'm going to follow Nik's lead with a tough question, which is – let's just assume things get better from a socioeconomic perspective. How do we know that behavior will go back to where it was. And I kind of asked in the context of, it does seem we're learning now and that COVID really changed the way the consumer is behaving in general across a series of things, but especially across beer. And could this be sort of the equivalent of a COVID moment that even if things start to open up a bit that maybe the behavior doesn't go back to where it was?

**William Newlands**

Yes, that's an interesting question. I think the important part of that for us to all keep in mind is, especially with our Hispanic consumer, which reflects roughly half our business, that consumer is very interested in beer. What has occurred is that occasions on which beer is consumed have decreased because of concerns of the socioeconomic area that you mentioned.

So when you look at the fact that consumers are not going out to eat as much as they had, they're having less social occasions at home. It doesn't change their interest in consumption of beer. It simply has been that those occasions have been decreased of when that occurs. So I think you're going to easily see it revert to a more normal scenario as the macroeconomic scenario comes back to a more normal environment.

**Operator**

Your next question today is coming from Peter Galbo from Bank of America.

**Peter Galbo**

I wanted to go back to maybe Dara's question on just the Beer gross margins. And actually, there was probably some favorability or upside to what we thought in the quarter. Garth, I think in your prepared remarks, you talked about kind of a $40 million tailwind on kind of operational improvements.

I'm just wondering how much of that as well is maybe some favorability on the peso that you guys locked in kind of at a more favorable value? And maybe how we should think about that on the go forward in the back half of this year or even into early next year as the dollar has weakened and peso has gotten stronger relative? Any context there would be helpful.

**Garth Hankinson**

No. No, thanks for the question, right? So just – I mean, as you know, we have a pretty robust hedging policy. It's a hedging policy that starts sort of 3 years in advance of any one fiscal year. So we're pretty good at this point to be able to manage the impact and smooth the impact of any currency and for that matter, commodity risk from year-to-year.

As we entered this year, on the peso front, we were hedged in the low 70% range, which is a little bit higher than what we normally target to start the fiscal year. As we saw some favorability earlier in the year with the peso, we did layer in incremental hedges for this year. And for this year, now we're up hedged for the peso over 80-ish percent. And then we laid incremental hedges for that matter for FY '27 and FY '28 to take advantage of that favorability.

So as we sit here looking at the balance of the year, there's still potentially a little bit of opportunity across the whole basket of currency and commodities. But specific to the peso, we feel the peso is probably a little bit overvalued right now due to the dedollarization. We'll continue to look for opportunities to take advantage of any changes that go in our favor there, but the impact is certainly not as material as it was earlier in the year, largely due to the hedging – the incremental hedging we did through the quarter.

**Operator**

Next question is coming from Andrea Teixeira from JPMorgan.

**Andrea Teixeira**

I was hoping to see – I mean, I think the important questions were asked. But just in terms of like your new distribution, I believe you quoted a good amount of high single digits into the summer. So I was hoping to see if there is any – obviously, with the conditions that the industry is in right now, but just to understand how the velocity has been so far and the level of incrementality you're seeing within the baseline. Of course, we know what the industry has been facing and the depletions on the negative front. But just thinking how you're positioning as we go into the summer season? And how does that velocity is behaving from now?

**William Newlands**

Sure. So distribution is going to continue to be a critical part for us. And fortunately, as the #1 share gainer in the category, we are in a position to continue to gain distribution and shelf positions. I think that's important for us as you see strong growth profiles for things like Pacifico, which we talked about a moment ago and Sunbrew and things that really are demanding more shelf positioned because of their strong start in the marketplace.

So we believe that that's going to continue to be an important part of our growth profile as we go forward, is broadening that distribution and our team is very focused on that. It goes right back to what I said before, which is control the controllables.

Our loyalty remains strong. We are seeing continuing improvement in the loyalty that we see with our Hispanic consumer, and it's growing in the general market. That speaks to the long-term benefit against your velocity question, and I think that will be an important part.

Another thing that I would point out where we're spending a lot of time is in price pack architecture. It's an area where, as the consumer may be more concerned about inflationary trends, it would be important to have the right pack set at the right price points so that no matter what the consumer has available to them to spend, we have a product available to them for that quantum that they have available to them. So that – all of those things are critical elements about what we call the controllables that we're going to be focusing on as the year progresses.

**Operator**

Next question is coming from Filippo Falorni from Citi.

**Filippo Falorni**

I wanted to get your perspective on the pricing environment in Beer. Obviously, the category is under a lot of pressure across the board. Are you seeing – how are you seeing the pricing implemented this year being taken in the market? And are you seeing any competitors maybe relying a little bit more on promotions to try to accelerate the volume in the category?

**Garth Hankinson**

I think there is some additional price promotion that's gone on in the marketplace. I'll use our example. We have addressed our oral pricing starting this past month going after the high-end light beer consumer, where we feel there's a great opportunity.

So we have made that adjustment in our own business in the interest of building additional share in the high-end light sector of the business. So I think you're always going to see a bit more promotional activity at a time when there's economic concerns. So that doesn't surprise us. But again, this goes right back to what we started with, which is our brands are strong and the loyalty is strong, and that at the end of the day, is going to win the date.

**Operator**

Next question today is coming from Bonnie Herzog from Goldman Sachs.

**Bonnie Herzog**

So I actually wanted to ask about the California wildfires that happened last year, and I guess the expected rebuild. Could you give us some color on what is happening with the rebuild? And what type of growth or upside you might be expecting from this considering how important this market is for you? And then maybe clarify for us that the rebuild potential upside is factored into your guidance?

**Garth Hankinson**

Sure. As many people know, and we've seen this at various what I will call, external factors, hurricanes in the East or fires in the West. Any time you see that sort of thing, there's a short-term hit and a somewhat long-term upside because as you, a, clean up and then rebuild, you're creating great job opportunities that tend to include interesting beer moments.

So I think as we are starting into that process, and as you know, it takes a while to start the process of rebuilding with permits and so forth, that will likely be a bit of a tailwind. The amount of that tailwind remains to be seen as a lot of it depends on permits and development and how much construction capability exists in the marketplace. But you are correct, that ultimately will be a bit of a tailwind. And yes, that is built into our expectations of our guidance going forward.

**Joseph Suarez**

That being said, Bonnie, I think it's important to point out that California has experienced some consumer challenges from the macro environment as it relates to things like unemployment, particularly for the Hispanic consumer and even construction there, where we expect that there will be some benefits. As Bill just noted before, construction plan remains down year-over-year in California. So again, should be some benefit longer term, but short term, still some macro headwinds in the state.

**Operator**

We have reached the end of our question-and-answer session. And ladies and gentlemen, that does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.