Constellation Brands Inc, Q1 2025, Earnings Call 2024-07-03

Presentation

Operator

Good morning, and welcome to the Constellation Brands' First Quarter Fiscal Year 2025 Earnings Call. — ***Operator Instructions*** — As a reminder, this conference is being recorded.

I would now like to turn the call over to Joseph Suarez, SVP of Investor Relations. Thank you. You may begin.

Joseph Suarez

Thank you, Daryl. Good morning, all, and welcome to Constellation Brands' Q1 Fiscal '25 Conference Call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO.

As a reminder, reconciliations between the most directly comparable GAAP measure and any non-GAAP financial measures discussed on this call are included in our news release or otherwise available on the company's website at www.cbrands.com. Please refer to the news release and Constellation's SEC filings for risk factors, which may impact forward-looking statements 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, and as Daryl mentioned, I would like to ask that we limit everyone to one question per person, which will help us to end our call on time.

Thanks in advance, and now here's Bill.

William Newlands

Thanks, Joe, and welcome to all to our Q1 fiscal ’25 earnings call. I’m pleased to say that we got off to a solid start in Q1. And as usual, I’d like to start with a few key highlights for the quarter.

First, we continue to extend our position as a growth leader within consumer packaged goods, achieving an enterprise dollar sales increase 4.5 percentage points above that of the entire CPG sector. Let me repeat that. We achieved an enterprise dollar sales increase 4.5 percentage points above that of the entire CPG sector for the Circana tracked channel data for the 12 weeks ended on their May 19 Quad Week.

This significant outperformance was largely driven by the continued growth of our Beer business, which attained the second largest share gain in the total beverage industry as well as once again the top share gain in all beverage alcohol. This for the Circana 12 weeks ended June 2, which most closely aligns with our quarter.

Second, continuing with our Beer business. We delivered another strong quarter with high single-digit net sales increase driven by our beer portfolios’ 57th consecutive quarter of depletion growth as well as significant operating margin improvement supported by our cost savings and operational efficiency initiatives. And of course, all of this was aligned with our full year guidance and our medium-term outlook for the business.

Third, in line with our disciplined and balanced capital allocation priorities, which we have consistently delivered against for more than 5 years now, in the first quarter of this fiscal year, we did several things.

First, we maintained our strong investment-grade balance sheet and still expect to achieve our target 3x net leverage ratio in fiscal ’25. Second, we returned $185 million to shareholders in dividends and executed $200 million in share repurchases plus we completed over $40 million more of buybacks in June.

Third, we continue to advance our latest growing capacity addition at Obregon and new brewery development at Veracruz. And we are pleased to have executed the divestiture of our Mexicali site, which, as a reminder, was mainly the land building as we had already repurposed most of the equipment.

Fourth, we executed the tuck-in acquisition of Sea Smoke to address white space and enhance asset utilization in our wine portfolio and in parallel, initiated a potential sales process of a few Wine and Spirits noncore assets, including certain vineyards and facilities to better align our network and partially offset the acquisition cost.

Staying with Wine and Spirits for a moment. While the performance of the business continues to face near-term challenges largely driven by broader category headwinds, we expect net sales and operating income improvements and our outlook for the fiscal year is unchanged.

Lastly, all in, we drove comparable earnings per share growth of more than 17% and remain focused on achieving our stated full year guidance and medium-term target of low double-digit comparable EPS growth.

With that, let's turn more fully to our Beer business performance. We maintained the momentum in our Beer business during the first quarter of fiscal '25 with net sales and operating income growth of more than 8% and nearly 16%, respectively. As noted earlier, these increases were primarily supported by strong volume growth as well as cost and operational efficiencies.

Our Beer business grew shipments by 7.6% in Q1 on a reported basis while depletions were up 6.4%, excluding the impact of the craft brand divestitures in June of last year. It is important to reiterate that this mid- to high single-digit level of volume growth was fully aligned with the expectations we shared for our fiscal year as well as our medium-term algorithm.

So despite the volatility of short-term scanner data, be it due to weather, timing of holidays or other nonstructural factors or the performance of the broader beer category, be that due to dynamics affecting other brands or segments, our beer team, once again, consistently delivered on our targets and objectives.

Now honing in on the performance of our largest brands. Modelo Especial grew depletions by nearly 11% and upheld its position as the top share gainer, extending its lead as the #1 beer brand in U.S. tracked channels. Importantly, Modelo Especial also continues to grow household penetration, rising to become the #3 brand on this metric at the end of May with a 2.4 percentage point increase on a 52-week basis.

While Corona Extra depletions declined just over 1% in Q1, we continue to expect we can deliver low single-digit growth from this brand. Importantly, Corona Extra remains a top 5 beer brand in the U.S., and it continues to gain share in the category.

Pacifico delivered remarkable depletion growth of over 20% and was the #4 dollar share gainer across the total beer category. Our Modelo Chelada brands delivered an increase of more than 5% in depletions. And we are excited to continue to build on that momentum in fiscal '25 with 2 new flavors: Fresa Picante and Negra con Chile.

More broadly, from an innovation pipeline perspective, the rollout of our 2 new Modelo Oro pack sizes is underway as we continue to thoughtfully build out the brand using our disciplined approach after a successful national launch last year.

In addition, the expansion of our Aguas Frescas variety pack to an additional 20 markets and the launch of Corona Sunbrew in select Eastern test markets are also advancing per our plans, and we look forward to sharing more on these additions to our portfolio over the coming year.

The strong execution of our Beer business in Q1 was also reflected in our ability to deliver significant operating leverage, driving 2.6 percentage points of operating margin expansion year-over-year. Looking ahead, we continue to expect our Beer business to deliver net sales growth of 7% to 9%, operating income growth of 10% to 12% and an operating margin of approximately 39% in fiscal ’25.

Moving on to Wine and Spirits. As noted earlier, we continue to face challenging dynamics in these categories, particularly across most of the wine price segments. These headwinds were the main drivers of the 7% net sales decline for that business in Q1.

That said, our craft spirits portfolio achieved shipment volume growth of 14% as well as double-digit dollar sales growth in Circana U.S. tracked channels, significantly outperforming the low single-digit growth rate of the higher-end spirits segment.

In addition, we continue to make good progress against the operational and commercial execution initiatives identified last quarter to support our efforts to improve the performance of this business in fiscal ’25. The tactical investments in the 11 brands that represent 75% of net sales and over 80% of volumes for our Wine and Spirits business in fiscal ’24 are now underway. And we expect to see improvements in the select group of our most scaled offerings over the remainder of the year, ultimately underpinning the relatively stable net sales outlook for that business in fiscal ’25. However, these incremental investments did have a near-term impact on the operating income, which declined 25% in the first quarter.

That said, we also expect year-over-year operating income performance of our Wine and Spirits business to improve throughout the remainder of the year. And we continue to target wine and spirits operating income to be down 9% to 11% in fiscal ’25. As we have noted previously, we remain committed to continuing to advance this business over the coming years towards the medium-term target shared in our Investor Day.

Lastly, we continue to make good progress against our ESG ambitions, having recently received TRUE Certification for Zero Waste at our Nava and Obregon breweries, marking a significant milestone in meeting our waste reduction commitment.

And as a reminder, last year, we also achieved our initial water restoration commitment 1 year ahead of schedule. And we then set an ambitious target nearly 5x the size of the original goal to be completed within the same time frame of fiscal ’23 to ’25.

So in closing, we once again delivered another quarter of solid performance driven by the continued strength of our Beer business, and we expect to maintain this momentum throughout the rest of fiscal ’25 and beyond as committed at Investor Day.

Our Beer business continues to achieve strong volume growth well above that of its category and total beverage alcohol. This outstanding performance supported the second largest dollar share gain within the broader beverage industry and reinforce our significant growth outperformance relative to the entire CPG sector.

Our Wine and Spirits business is making progress against the operation and commercial execution initiatives identified last quarter to support its trajectory for this year’s guidance. All in, we continue to advance toward our enterprise-wide financial targets, including the delivery of double-digit comparable EPS growth while upholding our disciplined and balanced capital allocation priorities from the last 5 years, which so far this fiscal year has also included the return of over $240 million to shareholders in share repurchases through June.

And with that, I turn the call over to Garth.

Garth Hankinson

Thank you, Bill, and good morning, everyone. As usual, my discussion of our Q1 fiscal '25 performance will focus mainly on our comparable enterprise results accompanied by business segment details.

Starting with our enterprise net sales. We delivered top line growth of 6% for the quarter, in line with our full year expectations and our medium-term outlook for our Investor Day targets. As anticipated, this strong growth was driven by our Beer business, which I will elaborate on shortly.

For fiscal '25, we continue to expect enterprise net sales to grow between 6% to 7%. Enterprise operating income increased 23% and 12% on a reported and comparable basis, respectively. This resulted in a 35.4% reported operating margin and a 180 basis point year-over-year increase in comparable operating margin to 34.7%.

While we delivered very strong operating income growth in the first quarter, again, driven by our Beer business, we continue to expect enterprise comparable operating income growth of 8% to 10% for the full year. At an enterprise level, we also remain on track to achieve our full year comparable EPS guidance of $13.50 to $13.80, having delivered comparable EPS of $3.57 for the first quarter.

As a reminder, our full year comparable EPS guidance represents a 10% increase year-over-year using the midpoint of our range. Importantly, these comparable EPS results and expectations are also consistent with our medium-term annual low double-digit comparable EPS growth target we outlined at our Investor Day last November.

Now turning to the more detailed discussion of the underlying drivers of our Q1 performance. Starting with our Beer business. The segment is off to a great start in fiscal '25. Our Beer business grew depletion volumes by 6.4% excluding the impact of last year's craft brand divestitures, which will be the basis of our depletion figures this year to eliminate any sequential distortions from lapping periods without the craft brands.

This reflected the solid consumer demand during the quarter as well as the strong execution and performance during the key Cinco de Mayo and Memorial Day holidays. As usual, we led Cinco de Mayo. And we are pleased to have once again won the Memorial Day holiday as the top share gaining supplier in Circana dollar sales, growing 6.3% and gaining 1.6 share points of total beer and 1.8 share points of high-end beer.

Modelo Especial was the top share gaining brand, picking up 1 share point, and we had a total of 5 out of 15 top share gaining brands. Our on-premise depletions grew 2% as we continue to capture tap handles and gain share as demonstrated by Modelo Especial shifting up one spot to now be the #4 beer on draft in the U.S.

Beer shipment volume for the quarter increased 7.6% and ran slightly ahead of depletions on both a growth rate and on an absolute basis. This is aligned with our usual seasonality as distributor and retailers prepare for the peak summer season.

That said, from a full year perspective, we continue to expect absolute shipments and depletion volumes to closely align with each other. And in terms of the quarterly cadence of our volumes in fiscal '25, we still anticipate a quarterly share of full year shipment volumes and depletion volumes to be largely aligned with that of fiscal '24.

Lastly, regarding selling days for our Beer business. They were flat for the first quarter of fiscal '25. For the balance of the year, we will have one less selling day, which will occur in Q2.

In addition to the shipment volume growth, we realized pricing benefits of less than 1% due to lapping the wraparound impacts of the pricing actions we took in the fall of calendar year 2022, which were above our normal pricing algorithm. Altogether, volume growth combined with price/mix benefits drove net sales growth of more than 8% for our Beer business.

As we look towards the balance of fiscal ’25 from a top line perspective for our Beer business, we anticipate the momentum of our portfolio to continue. The shelf space gains we captured this past spring and our ongoing pursuit of additional points of distribution across the country are in line with what we outlined during our Investor Day.

In addition, the opportunities across our disciplined innovation launches and the demographic tailwinds from Hispanic consumers, who have high affinity and strong loyalty for our brands as well as the incredible equity of our brands underpinned by our consistent marketing efforts, give us further assurance that our top line performance is sustainable.

Moving on to operating income and operating margin performance for our Beer business. This segment delivered 16% growth in operating income and a 260 basis point increase in operating margin to 40.6%. These increases were largely driven by the strong top line growth of our Beer business as well as a nearly $50 million benefit from our savings and efficiency initiatives, which partially offset an increase in COGS of 7% excluding these savings but inclusive of the impact of volume and foreign currency. As a reminder, approximately 25% of our total COGS are exposed to the Mexican peso, and we are approximately 85% hedged against that exposure for the fiscal year.

Marketing expense as a percent of net sales was 8.4% for the quarter, relatively in line with our full year expectation of approximately 8.5%. Other SG&A expense was 4.4% as a percent of net sales, slightly under our full year expectation as we expect an uplift in the second half due to lower fixed cost absorption as well as talent acquisition and integrated supply chain investments.

We continue to expect beer operating margins of approximately 39% for fiscal ’25. And from a cadence perspective, we anticipate incremental COGS relative to net sales in H2 due to lower fixed cost absorption from normal volume seasonality with some favorability in Q4 from lapping the VAT write-off in the same period last year.

Shifting to our Wine and Spirits business. The segment realized a 7% net sales decline in the first quarter. This was largely driven by a 5.1% decrease in shipment volume as marketplace dynamics in U.S. wholesale remain challenging, particularly in the wine category.

That said, we continue to expect that the operational and commercial execution initiatives identified in Q4 of last fiscal year and set underway in our recently completed Q1 should help us more effectively navigate the broader category and segment headwinds to ultimately deliver relatively stable year-over-year net sales performance in fiscal ’25. Note, however, that we expect the top line performance uplift in our Wine and Spirits business to be more heavily weighted towards the second half of the year, aligned with the usual seasonality of the business and as the benefits of our commercial and operational execution initiatives begin to take hold.

From an operating income perspective, our Wine and Spirits business realized a decline of approximately $20 million, which, in turn, resulted in a 370 basis point decrease in operating margin to 15.3%. These declines were primarily driven by unfavorable cost of goods sold, lower volumes and unfavorable product mix due to category headwinds extending into higher-priced segments, which more than offset the favorable impacts of SG&A expense and favorable pricing.

The unfavorable COGS relative to net sales was primarily driven by higher grape and low-end spirits costs, partially offset by cost savings realized in freight and warehousing.

Our marketing expense as a percent of net sales was 10.5%. This was elevated when compared to our medium-term target due to ongoing marketing investments around some of our largest brands, particularly through tactical initiatives.

SG&A as a percent of net sales was 17.5%, which was also elevated when compared to our medium-term target as benefits of our SG&A savings initiatives are expected to be realized in future quarters. As we look towards the rest of the year for our Wine and Spirits business, while we expect improvement in our performance for both operating income and operating margin, we continue to anticipate a full year 9% to 11% decline in operating income for our initial fiscal '25 guidance.

Rounding out the rest of the P&L. Corporate expense for the quarter was approximately $59 million, reflecting a year-over-year increase of $9 million or 18% largely driven by higher compensation and benefits and professional fees.

Interest expense for the quarter was $103 million, a 14% decrease from the prior year. And our comparable effective tax rate was 18.2% compared to 20.7% for the corresponding quarter last year.

Our corporate expense, interest expense and comparable effective tax rate expectations for fiscal '25 remain unchanged at $260 million, $445 million to $455 million and 18.5%, respectively. We expect a marginal increase over the coming quarters in corporate expense mainly due to an increase in compensation and benefits and digital capabilities investments.

We also expect a slight uplift in interest expense due to lower capitalized interest from our Beer business expansions beyond Q1 and a minor increase in our effective tax rate due to anticipated incremental contributions from our Wine and Spirits business to our enterprise operating income.

Turning to free cash flow, which we define as net cash provided by operating activities less capital expenditures. For the first quarter of fiscal '25, we generated free cash flow of $315 million, a 19% decrease from the prior year as capital expenditures increased 35%, primarily driven by the construction of our greenfield brewery in Veracruz.

That construction is progressing as planned. And similar to all of our recent expansions, we believe will enhance our production capacity, product redundancy and overall efficiency for our Beer business. We expect our new brewery to be operational towards the end of next fiscal year or in the earlier part of fiscal ’27.

To conclude, the excellent enterprise results were achieved in the first quarter of fiscal ’25 support our confidence in our ability to deliver on our financial and strategic objectives for the full year as we continue to leverage our strong portfolio of brands, relentlessly pursue operational excellence and remain consistent in adhering to our disciplined and balanced capital allocation priorities.

That said, as we always do, we will continue to closely monitor the consumer, currencies and our input costs and to take appropriate action in response to any potential volatility or macro headwinds. As always, we thank you for your continued support and interest in our company, and we will report by sharing our progress with you throughout the year.

With that, Bill and I will be happy to take your questions during our Q&A session. Thank you.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from the line of Andrea Teixeira with JPMorgan.

Andrea Teixeira

So Bill, got a few. You elaborated – you commented on the continued momentum in beer and disciplined marketing efforts leading to sustainability of growth. I think we are all hoping to hear from you a little bit of how you exit the quarter, any June commentary so far given the state of the consumer, given all we are hearing from other companies and the economy in general. So if you can comment on that.

And related to that, like I think we all hope that you are benefiting from all the shares and expansion in distribution. And if you can kind of tell us like a little bit of how you benefited from – in the depletions that you just reported the 6.4%, how much you would say came from same-shelf growth or how much was additional distribution?

William Newlands

Sure. Let me start with that. First of all, I think the important thing to always keep in mind is that our buy rates for our Beer business remain very strong. We saw high single digit both at a consumer level and within the Hispanic community with the Hispanic community being slightly higher than the total consumer.

Now that doesn't mean there aren't some shift around in pack sizes channels, but our buy rates remain extremely strong. And I think this is a consistent theme that we've said time – frankly, time and time again, which is our Beer business has tremendous brand loyalty. And therefore, it continues to excel despite whatever might be going on with other beer companies or with other brands in the sector.

As we noted, we had an unusually strong performance against all other CPG sectors, and we're again the #1 share gainer within beverage alcohol. To your point, I think the gains that we saw in shelf sets is certainly an additive factor in this. It also gives us plenty of chance to expand things like Oro, which we're very excited about for this fiscal year.

So I think it's very difficult to put an exact number on the dimension of it. And I think you've seen we've consistently delivered year after year after year on exactly what we said we would do, and this quarter is no different.

Operator

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

Carlos Alberto Laboy

You've been able to sustain pretty good profit margins or pretty stable profit margins here remarkably well despite the Mexican peso having appreciated very strongly in recent years. But that seems to have turned this quarter.

If you were to enter a period of peso weakness, can you speak to the sort of flexibility that this might give you or that would enter into your pricing strategy? Look, just to be transparent, the reason I'm asking is because in the '80s and '90s, we went through periods of peso weakness, and you were able to successfully close price gaps with mainstream beer and the dividends of that are still coming through today. So if you could just speak to how you're thinking about this, it would be helpful.

Garth Hankinson

Yes, Carlos. I think the results that you referenced are just an indication of how effective our hedging policies really are. We have a multiyear hedging policy, which allows us to layer in incremental hedges over a multiyear period when we see moments of weakness, if you will.

In Q1, we actually did see a couple of days there where there was some fairly significant movements greater than 10%. And we took advantage of that movement with our treasury team, again, layering in incremental hedges, not just for this year, but also for future years as well.

Just as a reminder, when we entered this fiscal year, we were about mid-70% range hedged against the peso. And as a result of these incremental hedges, we now sit at about 85% for the full fiscal year. So again, it's a very robust practice, very methodical, disciplined and flexible approach. And it's certainly been paying dividends for us.

Operator

Our next question comes from the line of Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

So just to follow up on Andrea's question in terms of macros and potential impact on the Beer business. Can you unpack a little more maybe what you're seeing from low versus middle versus high-end consumers in terms of demand for your Beer business?

And then also just any update on on-premise channel trends and what you're seeing throughout the course of fiscal Q1 and so far this summer just in terms of if we're seeing any big channel shifts or any types of impact on that front?

William Newlands

Sure, Dara. Let's start with the second question first. The on-premise was slightly weaker than what we might have expected although as you saw, we had some significant gains within our franchises, particularly Modelo, which stepped up a position versus what we had, had in prior years.

I think some of that relates to a couple of things. One is as many people have noted, the weather scenario that existed over the course of the early part of the spring/beginning of summer wasn't great, which impacts the on-premise, much like it impacts the overall business. So I think that was a bit of a play.

But as we are getting into the summer months, we expected this to show some resiliency. I'd reemphasize to your question about where the consumer is at various price points – excuse me, income points, I think yet again, this goes right back to what I said in answer to her question, which is the brand loyalty that exists with our consumers is second to none.

I mean when you look at the Hispanic consumer, which is one we watch very closely given it's more than 50% of our overall mix, that consumer buy rate was up compared to the total consumer. Again, I think that speaks very strongly to the loyalty that we see within that consumer base, irrespective of income.

That, in particular, is a long-range benefit for our business and will continue to be a long-range benefit to our business given that community, in many respects, views beer as a stable.

So again, overall, we continue to be very pleased with our buy rates. And despite gives and takes during the course of the quarter, I think it's reflected in our depletion rate of 6.4%. It's a very strong quarterly result.

Operator

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

Filippo Falorni

First, just a quick follow-up on Andrea's question. If you can just provide any update on just what you're seeing exiting the quarter into June.

And then a bigger picture question on innovation. Last year, obviously, you had Modelo Oro, which was pretty successful, and you have some runway for this year. Can you talk a bit about this year's innovation, including Corona Sunbrew and the Modelo Aguas Frescas expansion and anything else we should think about in terms of innovation contribution in beer.

William Newlands

You bet. As we've said in other quarters, we're not going to give quarterly depletion guidance. But what I will say is we're really pleased with the status of the weather going into this particular quarter. And as we've always said, that's really a big factor in terms of the delivery of the business.

And quite frankly, the forecast for tomorrow is terrific. So we're looking forward to the July 4 being yet another event and a weekend and weekday in this case, that we will win, much like we did on Memorial Day before it.

So relative to the innovation agenda, we have expanded Modelo Aguas Frescas to 20 additional markets. As you may recall, it was test marketed last year in Las Vegas and was the #1 FMB in that particular market, had a very strong start. And that variety pack is now in 20 additional markets, which covers roughly 70%, 75% of the total consumption expected for that product. So we're very excited to watch that one develop as the year goes on.

Similarly, we are testing Corona Sunbrew in the Northeast, just – again, just getting started. And it's very early days, but we're very pleased with their response to it. And certainly, much of the consumer sampling that's been done around that product suggests that, that product is going to be a home run for us with the consumer.

So again, both of those are too early days to really have any, what I would call concrete results. But as we always do, those were only introduced after significant testing at a consumer level to make sure that we have the right product, the right package and the right pricing mix to give them a very high probability of success.

Operator

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

Lauren Lieberman

Great. So the strong start to the year on profitability would seemingly create more flexibility to hit that 10% to 12% operating profit guide for beer for the year. Particularly, there's nothing too material from a timing perspective in the quarter. So kind of what do you see as the key variables that influence the high versus the low end of that operating profit guidance range from here?

Garth Hankinson

Well, look, Lauren, we feel really good about the guidance we gave for the full year. And obviously, we feel really good about the results we reported today.

As we gave guidance in April of this year, obviously, we laid out that from a beer perspective, we very much expected that our operating income growth would be in that 10% to 12% range. And we certainly reiterated that today.

That implied that our operating margins would be at about 38%. I think it's important to note that – or 39%, I should say. I think it's important to note that we gave that guidance as it relates to the margin on an annual basis, not on a quarterly basis. So that means that we won't necessarily hit 39% or approximately 39% every quarter.

Certainly, we expect that there's going to be the normal seasonality that we see every year, which means we have higher volumes in the first half of the year and then lower volumes in the second half of the year just due to regular seasonality, which results in a bit of a fixed overhead absorption drag as well as the second half of the year is when we do most of our maintenance on our breweries. So therefore, the second half of the year will be lower from a margin perspective than the first half of the year.

That being said, as we've noted previously, we do expect that in Q4 that we will see some favorability on a year-over-year basis due to the lapping of the VAT write-off of last year.

Operator

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

Nik Modi

Bill, just more of a philosophical question. I mean the sentiment on the beer category has been pretty poor for a while now. Obviously, investors see it, but the trade talks about it as well. And obviously, your business has been very disconnected from that.

So I'm just curious, like as you engage with your supply chain partners, distributors, retailers, what's the conversation look like? I mean are they coming around the fact that maybe they can't index your business relative to the beer category anymore because there's a lot of moving pieces and cross consumption, it's really about occasions versus just some holistic category? I mean I'm just curious like what that discussion looks like right now, especially as you're in the middle of shelf resets and probably discussions for what's going on in the fall and even next year.

William Newlands

And I'll have to start, Nik, by giving a little tip of the cap to you because you pointed out what we think is a critical point, which is this is all about brands. The reason our brands have gotten double-digit increase in their shelf position during this period of time is because of the strength of those brands and the takeaway.

As we've said on prior calls, our average SKU takeaway in dollars is 5x the rate of our chief competitors. So if you're a distributor or you're a retailer, you're going to put the emphasis on where you get growth in profitability and growth in takeout and strong velocities. And our brands represent that.

That's why you see Pacifico with 20% growth and being the #4 share gainer. That's why you see Modelo Especial now being the #1 play in off-premise dollar volume. Our brands are very strong, and they stand out distinctively from other brands in the category. And I think you've made that note many times, and we happen to agree fully with that.

Lastly, I'd say we continue to invest in our brands. Part of what we are doing is we believe there's still significant upside on the longer term in terms of our brands and the investment that we put behind them.

Despite Modelo being #1, there's still a lot of awareness opportunity, and we're planning to go get it. We feel the same way about things like Oro and Aguas Frescas and Sunbrew. We're bringing new scenarios and new occasions to more consumers.

I think that all speaks to the strength of our brands. And I think whether you speak to retail or whether you speak to distributors, they're all very excited about our prospects, not only today, but for the long term.

Operator

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

Bryan Spillane

I have just 2 questions. I guess the first one is just, Garth or Bill, if you can just comment on Veracruz. I know you made a comment in the prepared remarks, but just how far along you are in the construction? Do we have a foundation yet? Have we piped in water? Just some sense of kind of where you are and where that is relative to plan, and then I have a follow-up.

Garth Hankinson

Well, Bryan, I mean, as I said in my remarks, I mean, we are well on our plan. We expect to open that brewery at the end of the next fiscal year or early in the fiscal year after that. So we're well on our way. It is why our CapEx this year is at its peak.

As a reminder, we shared with everybody at Investor Day that FY '25 would be our peak in terms of CapEx as that construction is kind of at full throttle. Importantly, as this is our peak year of CapEx, we do expect that by the sort of end of our medium-term outlook, meaning FY ’25, we’ll go from CapEx kind of in the low double-digit range of net sales to mid-single-digit range of net sales. So just important for all of you to know and appreciate that. But as it relates specifically to Veracruz, we are on track.

Bryan Spillane

Okay. And then just a follow-up on some of the earlier conversations, Bill, the stock is down today because I think there’s a concern about the tough comparisons in beer, maybe a little bit of election concern because of how the stock reacted when Trump was elected in 2016. So could you just give us a perspective on how you think about the comps?

I mean the comps were the comps when you set your plan. So it’s not like they’re a surprise. So if you can give us a perspective on that and whether or not people should actually even be worried about the election and who wins or loses relative to STZ. It’s a different…

William Newlands

Yes, sure. I think it’s always risky, and we’ve talked to many, many times, Garth and I have about this topic about getting too excited about what happened tomorrow morning rather than looking at the longer-range picture.

Year after year after year now, we’ve delivered against the goals that we set out. And we’re not varying from our expectations from this year, in part because of the very strong performance that we delivered in Q1.

As Garth noted in his remarks, that doesn’t mean there aren’t times when it’s a little better or a little worse or you have a little variability because you have less sell days or you have various things that go on. I think it’s important to look at the bigger picture.

Our brands continue to perform year after year, and the runway for those brands remains extraordinarily strong. I think that's going to be a true statement no matter who's elected in November.

Our brands are really focused on delivering against the consumer. And that consumer is incredibly loyal, as I said just a few minutes ago. That makes a big difference, irrespective of who happens to be the President of the U.S.

So we're certainly – I might add, and we've said this before as well. Our government affairs team works very closely, both in the United States and in Mexico on both federal and a local level. And I think that capability is one that's also advantageous to us, again, irrespective of any particular party that might happen to be in office in any particular time.

Operator
Our next question comes from the line of Peter Grom with UBS.

Peter Grom
So Garth, I was hoping to get some updated perspective on just kind of the puts and takes as it relates to the beer profit outlook. Back in April, you touched on volume leverage, price/mix, cost savings being tailwinds versus commodities and FX being headwinds. I mean I'd just be curious, have your expectations for those buckets changed at all over the last few months? I totally understand you reiterated the outlook this morning, but just have the building watch changed at all versus your prior expectations?

Garth Hankinson
Well, thanks, Peter. I mean I guess the short answer to that question is no. I mean as I just laid out previously, we will see quarterly variability as we do every year mostly driven – due to seasonality, volume seasonality.

Certainly, the building blocks that we laid out in detail at our April conference call we provided for full year guidance, those remain where they are or what they are. As we noted a couple of times now, we are taking actions where we see that there's opportunity to take actions like making sure that we further hedge against the peso when we see weakness. But other than that, I mean, the business continues to be the business and the building blocks are the building blocks.

Operator

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

Christopher Carey

I'm going to follow up on Peter's question there around gross margins in beer specifically. Garth, can you maybe frame how the Q1 gross margin came in relative to your expectations on paper? It certainly looks like strong delivery, specifically in the context of the rest of the year.

And then just regarding the commentary around taking advantage of the weaker peso, does that give you more confidence on this fiscal year? And how much can you actually take advantage of for fiscal '26 at this point?

Garth Hankinson

Yes. So I would say that the gross margins kind of came in within our expectations, just to give you a little bit of color around what drove that. We essentially saw about 100 basis points of improvement in gross profit margin on a year-over-year basis.

About 30% of that – or 30 basis points of that, I should say, is volume, price and mix driven. About 80 basis points are what I would just call cost of goods, logistics, materials, labor, offset by depreciation and things of that nature.

We got about 20 basis points bump due to the craft divestiture. And then we had about a 30 basis points hit just due to the exposure against the FX that's unhedged. So that's really what the building blocks or not – the makeup of the changes.

We feel really good about where we are for the balance of the year. Certainly, we continue to progress against our aggressive cost savings initiatives that we outlined at our Investor Day.

As I mentioned in my comments, we've already got $50 million or about $50 million in Q1 that we think is sustainable. And we'll certainly continue to execute against the cost savings initiatives as we go through the balance of the year.

Operator

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

Bonnie Herzog

I had a question on just marketing. Your outlook for marketing and advertising spend this year, it's below historical levels. And I guess there's some concern that you may be starving your brand. So could you touch on this and provide a little more color on the efficiencies you've gained and may continue to gain, how you're approaching investments this year and I guess why you feel good about these investment levels?

William Newlands

Yes. You bet, Bonnie. We're actually going to be spending more dollars this year than we have in prior years. As you would expect, because our brands demand it, and our growth profile allows us to continue to do it.

With that said, you did point out an important point is we have created some efficiencies within our spend. And therefore, the percentage is slightly less than we've done in prior years purely driven by efficiency.

That doesn't change the fact that we are spending more against our brands than we've ever spent, and that process will continue. We strongly believe engaging our consumer with critical national media and digital advertising platforms are critically important to continue to create awareness and to bring consumers into our franchises.

In fact, you're seeing spend against many of our new initiatives. You're seeing that against Sunbrew. You're seeing that against Aguas Frescas. We just kicked off our Oro spend for the year. We are very strongly supportive as we have been for many, many years against our brands, and that process will continue.

Garth Hankinson

Yes. And if you don't mind me, Bill, I'll just weigh in a little bit more. I mean we've said this publicly multiple times now. We will continue to invest in the growth of our business, both in marketing just like we do with the investments we are making in our brewery capacity. We will not starve our brands for marketing in order to hit a margin profile. Instead, we will continue to invest for growth.

William Newlands

So since we're piling on, Garth, you mind if I pile on, too? One of the reasons why we saw the improvement in the Modelo penetration and the double-digit growth in Modelo's business in the quarter is exactly what we're just talking about, which is we spend against our business. That's why Modelo in 10 years has gone from a tiny little brand to the #1 brand by dollars in the United States.

Operator

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

Nadine Sarwat

I want to come back to the November election. So former President Trump has mentioned the potential of a 10% universal baseline tariff should he win. Given your Mexican import beer business, how do you think that potential scenario would play out for Constellation? And how would you add color on the risk that it would place?

William Newlands

I think it's too early to speculate on what may or may not happen in November. Quite frankly, our business performed just great during the last Trump administration. And I would expect that we would perform extraordinarily well in a new administration, irrespective of who might be at the helm of that administration.

I think it's important to recognize our business includes inputs from – heavy inputs from the upper Midwest in the United States as an integral part of what our overall package of inputs are in our business. Admittedly, there's a lot of flow. Our biggest trading partner in this country is Mexico, and I think that's likely to continue. And we're sure we'll be able to navigate anything that might occur just fine, and we'll work aggressively to do just that.

Operator

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

Robert Ottenstein

Great. Two questions. One, terrific quarter, reiterated the guidance, a lot of confidence, stock down. Love to get your kind of renew your kind of your thoughts on share buybacks here with the stock really not much higher than it was in 2018, which has got to be a huge disappointment to you, your management team and the Board and myself, frankly, since we've been recommending it. So that's question number one.

And then question number two, love to get your thoughts on just the beer industry overall, how it's been developing. And there was an earlier question, I think, on how you did in June. I'm not sure you answered that. If you're not comfortable talking about your performance in June, maybe the industry overall in June, whether it looked better sequentially than in May.

Garth Hankinson

Thanks, Robert. Just in terms of the share buybacks, I mean, I think as Bill alluded to in his opening remarks, in Q1, we continue to make and show the same progress that we have over the last 5 years in terms of all of our capital allocation priorities. That included share buybacks. As Bill noted, we bought back $200 million worth of shares in the first quarter and then through the end of June, bought back an additional $40-plus million.

So we've continued to do what we said we would do. As we've come out of the Q1, we still have about $2.4 billion, $2.6 billion left on our share reauthorization. And we will continue to use the same discipline that we have exercised over the last several years and buy when we see periods of dislocation.

William Newlands

And relative to your question about the overall beer category, certainly, it appears that there's been some positive momentum as we've come out of June. I think a lot of that relates to the development of the summer. We're heading into the peak summer selling season, which we're always excited to see given we tend to win all of the major holidays during those seasons and would expect to do so tomorrow as well.

But certainly, it looks like there's been some improvement. A lot of that, we've covered this, and you hate to note this too often, but the reality is there were a lot of sort of bad weather moments at key times around weekends and holidays over the first part of this calendar year, which certainly hasn't been beneficial for the category overall.

But I got to go right back to what I said a couple of times already today, which is our brands have outperformed this category for a long, long time. And we expect that to continue because of the strong brand loyalty that we have amongst our consumers.

Operator

Our next question comes from the line of Robert Moskow with TD Cowen.

Robert Moskow

I guess I'll ask about wine. The guidance for the year implies a pretty substantial pickup in sales growth, I guess, in the second half. What kind of visibility do you have with your distributors on how the commercial turnaround is going? Are they making bigger commitments about what they're willing to take on because it does imply a pretty steep ramp.

William Newlands

We already always said, especially after our prior quarter, that we were going to take 9 to 12 months to get our wine business back into the position that we expected to do. We're pleased with what the work that's been done. I think we're ahead of schedule on some of the operational points that we expect, recognizing they're likely to be second half loaded because once you put in the work, you have to wait to get the results out of them.

Second, I think we've seen some significant improvement in our engagement, particularly with our wholesale network. And we believe that's going to create good opportunity in the back half of this year.

Some of the reexpression of our marketing dollars that we have put in place, you saw some of that play out in that in terms of the early spend in this quarter are already showing some positive signs. And we look forward to reporting on those as we go forward. But certainly, we expect the improvement in this business to be back half loaded as we've said now a couple of times.

I think the other thing to also recognize, both our international business and our DTC business are performing ahead of what we had planned. The place where we're still spending a lot of time and energy is on the wholesale portion, but we're working very closely with our key wholesale partners to deliver against those expectations. And I think, fortunately, we are all on the same page about what needs to be done and what delivery we expect against that business as we progress through the year.

Operator

We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Bill Newlands for closing remarks.

William Newlands

Thank you, Daryl, and thank you all again for joining today's call. We're certainly off to a solid start in fiscal '25, and clearly today brings a great buying opportunity for our stock.

Our Beer business continues to deliver excellent top line performance underpinned by leading volume growth while achieving solid margin expansion through our cost savings and operational efficiency initiatives. While our Wine and Spirits business continues to face challenging market dynamics, it is making progress on commercial and operational execution initiatives expected to drive improved performance.

Altogether at an enterprise level, we continue to significantly outperform the entire CPG sector with our strong volume-driven growth. And we remain confident in our momentum and our outlook for the full year, including delivery of our double-digit comparable EPS growth.

And with that, I wish you all a happy 4th of July holiday, and certainly hope that you contribute to our outstanding performance that we expect to have during this critical holiday period. Thank you all for joining the call, and have a good summer.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect at this time. Enjoy the rest of your day.