Constellation Brands Inc, Q1 2018, Earnings Call 2017-06-29

Presentation

Operator

Welcome to the Constellation Brands First Quarter 2018 Earnings Conference Call. — ***Operator Instructions*** —

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

Patty Yahn-Urlaub

Thanks, Laurie. Good morning, and welcome to our first quarter fiscal 2018 conference call. I'm Patty Yahn-Urlaub from Investor Relations, and I'm here this morning with Rob Sands, our President and Chief Executive Officer; and David Klein, our Chief Financial Officer. As a reminder, reconciliations between the most directly comparable GAAP measure and any non-GAAP financial measures discussed on this call are included in our news release or otherwise available on the company's website at www.cbrands.com. Please refer to the news release and Constellation's SEC filings for risk factors which may impact forward-looking statements we make on this call. — ***Operator Instructions*** —

Thanks in advance, and now here's Rob.

Robert Sands

Thank you, Patty. Good morning, and welcome to our discussion of Constellation's first quarter fiscal 2018 sales and earnings results. Our quarterly results reflect the continuation of our winning streak as we produced results that delivered our 16th consecutive quarter of double-digit comparable EPS growth. I'm also pleased to report that this morning, we achieved a new all-time high stock price while significantly outperforming the S&P

500 so far this year.

So let's get underway with a review of the business performance that delivered these fantastic results. We'll start with Constellation's beer business, which remained the #1 growth driver in the high end of the U.S. beer market, driving 60% of the growth of this market segment while posting double-digit depletions and significantly improving margins. Excellent execution during the Cinco de Mayo and Memorial Day holidays drove significant market share gains for the quarter. As a matter of fact, Constellation claimed 5 of the top 15 high-end share gainer spots during Cinco de Mayo, with Modelo Especial coming in as the #1 growth driver, followed by Corona Extra in the #3 spot and Pacifico rounding out the top 5.

During this quarter, we increased media investments for Corona Extra and launched new English and Spanish language national TV campaigns, including a new TV advertisement highlighting limited-edition can packaging.

Casa Modelo's flagship Modelo Especial brand is on fire, gaining distribution while delivering depletion growth of almost 20% for the first quarter. Also under the Casa Modelo umbrella, we launched the new Modelo Chelada flavor, Tamarindo Picante, which is supposed – which is supported with a fully integrated marketing and merchandising plan as well as Modelo Chelada 3-packs, both of which saw strong sales in the quarter.

We expanded our national TV advertising efforts during the first quarter for the Pacifico brand, which posted depletion growth of 20%, representing an acceleration from where we ended fiscal 2017. And our new product entrants into the marketplace, including Corona Premier and Corona Familiar, are showing strong performance in markets where they are currently available, with velocities and consumer acceptance exceeding our expectations. Thanks to the great efforts of the beer team, I'm pleased to announce that Constellation recently tied for the top-ranked supplier in the latest Tamarron Malt

Beverage Supplier Performance Survey.

Now from an operations perspective, our Nava Brewery completed its expansion phase to 25 million hectoliters last quarter, ahead of the schedule, and we look forward to completing the next phase of expansion, taking the brewery at 27.5 million hectoliters of capacity by calendar year-end. As we speak, furnace #3 is heating up at the Nava glass plant and is expected to be producing glass later this summer, right on schedule. The Obregon brewery continues to perform at its very high utilization level, and we are optimizing existing Obregon capacity and packaging capabilities that are designed to increase output by early next year.

These actions have allowed us to take a more measured approach from a time line standpoint to the greenfield brewery site in Mexicali while ensuring we have product supply to satisfy our growth expectations. Overall, the strong results that the beer business achieved in the first quarter are driving the upward revision to our EPS guidance for the year. David will have more to say in this regard in a few moments.

Turning now to Ballast Point. This business has not performed to expectations from a growth standpoint. As a result, we recorded an impairment charge related to the trademark value of the acquired brands for the first quarter. However, we remain committed to achieving our targeted return on investment for this acquisition. Ballast Point continues to gain distribution and is currently positioned as a top 20 craft brand in the U.S. market. Going forward, we are focused on the following: gaining greater distributor alignment with the Gold distributor network where possible; developing a more focused brand architecture, led by the flagship Sculpin brand; investing in Ballast Point's first consumer marketing campaign; and leveraging the import side of the beer business as well as other TBA resources within the company. Overall, craft beer continues to be one of the key growth segments within the U.S. beer market. We plan to look for ways to leverage the

Ballast Point craft beer platform as it is an important part of our high-end strategy, and we remain optimistic about the prospects for this business going forward.

Now before we begin our discussion of results for our wine and spirits business, I'd like to highlight our recent acquisition of Schrader Cellars, which is a California-based fine wine company known for producing superior quality, distinctive wines. These wines are sourced from the prestigious vineyards of Napa Valley, including the famed Beckstoffer To Kalon vineyards in Oakville, California. Schrader Cellars is America's highest-rated maker of Cabernet Sauvignon with 19 100-point ratings from legendary critics like Robert Parker of The Wine Advocate, James Laube of Wine Spectator and James Suckling. Today, approximately 90% of Schrader's inventory is sold direct to consumers through an elite mailing list. The remainder is sold through distributor channels to select fine-dining establishments, with limited availability of approximately 4,000 cases per year. Schrader Cellar typically sells for $225 to $250 per bottle to customers on its mailing list.

Overall, this world-class luxury wine portfolio adds cachet to our newly established fine wine sales organization. It also provides an opportunity for us to advance our fine wine strategy and more fully compete in one of today's fastest-growing wine segments while optimizing our Napa assets and grape supply.

During the first quarter, our wine business maintained its IRI market share position and delivered excellent margin enhancement, driven by a combination of favorable mix and price as well as benefits from our recent acquisition and divestiture activities and our ongoing cost of goods sold optimization initiatives.

We have also made good progress against our innovation and renovation activities. After the successful renovation of Robert Mondavi Private Selection, which is currently growing at 10% in IRI channels, we recently relaunched brands, including Clos du Bois, Estancia and Wild Horse.

And from an innovation perspective, we launched the new 7 Moons Red Blend wine brand as well as Cooper & Thief, which has now become the #3 luxury red wine blend. Our acquired brands are also performing well, with High West Whiskey, The Prisoner and Charles Smith Wines posting recent IRI channel growth of 78%, 35% and more than 100%, respectively. During the first quarter, our wine and spirits depletion trends were impacted by the timing of promotional programs. However, we have solid programming in place for our key Focus Brands in the coming months, including the launch of our new TV advertising campaigns for Kim Crawford, Black Box and Woodbridge by Robert Mondavi. In addition, we are investing in a new digital campaign for the Meiomi brand, which is the first-ever national advertising program for Meiomi. Our spirits portfolio posted excellent sales growth of 14% in the quarter, driven by High West, SVEDKA and Paul Masson Brandy. Overall, our wine and spirits business is on track to meet our goals for the year.

In closing, I am very pleased with our first quarter results, which have set the stage for this coming fiscal year. We've delivered exceptional performance across the business that demonstrates our commitment to sustaining profitable growth and building shareholder value, and we remain one of the best-performing companies among our consumer peers.

With that, I'd now like to turn the call over to David, who will review our financial results for our fiscal – first quarter fiscal 2018. Thank you.

David Klein

Thanks, Rob, and good morning, everyone. Fiscal '18 is off to a great start. Our Q1 results demonstrated strong financial performance as we generated 7% organic net sales growth, expanded our consolidated comparable basis operating margin by 530 basis points and increased comparable basis EBIT by 22%. These results include particularly strong operational performance by our beer business, which is driving an increase in our full year comparable basis diluted EPS goal to a range of $7.90 to $8.10 per share. I'll discuss the drivers of this in a moment, but first, let's look at Q1 performance and our full year outlook in more detail, where I'll generally focus on comparable basis financial results.

For beer, net sales increased 8% on volume growth of 7%. Depletion growth came in strong at 11.6%, with excellent performance during the key Cinco and Memorial Day holidays. Shipment growth was below depletion growth primarily due to shipment timing. For Q2 fiscal '18, we expect shipment and depletion growth rates to be similar, and as a reminder, we're facing a difficult 14% depletion growth comparison for Q2 fiscal '17. For fiscal '18, we continue to expect net sales growth for the year to be in the 9% to 11% range. This includes 1% to 2% of pricing targeted for our Mexican portfolio.

Beer operating margin increased 470 basis points to 40.3%. This strong result exceeded our expectation and reflects lower COGS, foreign currency benefits and favorable pricing. The lower COGS reflect operational benefits, driven primarily by supply independence from ABI, including better-than-planned performance at Obregon; lower materials, including benefits from supply – from glass supply sourcing; and lower freight costs. These benefits were partially offset by a $14 million increase in depreciation expense, which totaled $40 million for Q1.

Given the strong operational performance, we now expect beer operating income growth to be in the range of 13% to 15%. The expected moderation in beer operating income growth and margin for the remainder of the year versus Q1 is being primarily driven by the continued ramp-up in depreciation, planned headcount addition to support our expanding operating platform, anticipated unfavorable foreign currency impact due to tougher peso comparisons in the back half of the year and lower benefits related to ABI supply agreement independence as the year progresses.

For wine and spirits, organic net sales increased 6%. This primarily reflects favorable mix and price as well as volume growth. U.S. depletions were down 1%, and shipment volume outpaced depletions during the quarter due primarily to timing as we expect shipment and depletions to generally align for the full year. As Rob mentioned, we have solid promotional and marketing program in place for key brands for the remainder of the year as part of our efforts to achieve our full year goals for the wine and spirits business.

Wine and spirits operating margin increased 640 basis points to 29.7%. This improvement primarily reflects favorable mix and price, with pricing benefiting from lower promotion spending due to timing; divestiture of the lower-margin Canadian wine business; and acquisition benefits. For the remainder of the year, we expect to see moderation in our wine and spirits operating margin versus Q1 due primarily to higher promotion spending in support of the programming activities I just mentioned.

For fiscal ’18, we continue to expect wine and spirits reported net sales to decrease in the range of 4% to 6% and operating income to be flat. These projections include the negative impact of the Canadian wine business divestiture and the estimated incremental benefits from High West, Charles Smith and The Prisoner acquisitions. When excluding the impact of the Canadian wine business divestiture from our fiscal ’17 wine and spirits results, we continue to expect net sales growth of 4% to 6% and operating income growth of 5% to 7%.

Interest expense for the year decreased 3% as the benefit of lower average interest rates was partially offset by higher average debt balances. We continue to expect fiscal year ’18 interest expense to be in the range of $340 million to $350 million. When factoring in cash on hand, our net debt at the end of May totaled $9 billion. This was level with our net debt balance at the end of fiscal ’17.

In early May, we announced that we issued $1.5 billion of senior notes at attractive, investment-grade interest rates. These notes were comprised of 3 $500 million tranches, with 5-, 10- and 30-year terms and interest rates of 2.7%, 3.5% and 4.5%, respectively.

Proceeds from the offering were used to repay $700 million of 7 1/4% notes that were coming due in May, and together with revolver borrowings, we repaid the remaining balance of our U.S. Term A loan. Our net debt to comparable basis EBITDA leverage ratio moved down to 3.5x at the end of May from 3.7x at the end of fiscal ’17 while we continue to invest in our Mexican operation and return cash to shareholders, with $100 million of dividends paid in the first quarter.

Our comparable basis effective tax rate came in at 19.4% versus 31.6% last year. This improvement reflects the benefit of reinvesting foreign earnings under APB 23 and the adoption of ASU 2016-09, which requires excess tax benefits from stock-based payment awards to be recognized in the income statement. As a reminder, this benefit can fluctuate significantly depending on the timing and level of stock option exercises. As a result, we expect to see more volatility in our effective tax rate on an annual and quarterly basis. For fiscal ’18, we continue to expect the effective tax rate to approximate 22%. The full year effective tax rate is forecasted to be higher than the Q1 rate primarily due to an anticipated decrease in quarterly stock-based award activity throughout the balance of the year. Historically, Q1 has had the highest quarterly stock-based award activity. For Q2, we’re targeting the effective tax rate to be in the 24% to 25% range. I’d also like to note, for fiscal ’18, we expect weighted average diluted shares outstanding to approximate 201 million and net income attributable to noncontrolling interest to approximate $10 million.

As mentioned earlier, we’re now projecting our full year comparable basis diluted EPS to be in the range of $7.90 to $8.10. The midpoint of this guidance has us targeting 18% growth. Our comparable basis guidance excludes comparable adjustments, which are detailed in the release. This includes an $87 million noncash impairment charge recorded during Q1 related to the Ballast Point trademarks. As Rob discussed earlier, we’re optimistic about Ballast Point and remain focused on achieving our targeted return on that acquisition.

Moving to free cash flow, which we define as net cash provided by operating activities less CapEx. We generated $165 million for the quarter. This was slightly below Q1 last year as double-digit operating cash flow growth was more than offset by an increase in CapEx. We continue to expect fiscal '18 free cash flow to be in the range of $725 million to $825 million. This reflects operating cash flow in the range of $1.9 billion to $2.1 billion and CapEx of $1.175 billion to $1.275 billion, including approximately $1 billion of CapEx for our Mexico beer operations expansion.

In closing, our stellar portfolio, strong business fundamentals and commitment to generating top-tier sales and profit growth will position us to deliver another strong year of financial performance and build shareholder value in fiscal '18.

With that, Rob and I 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

So my one question is around M&A. Given the expected inflection in free cash flow over the next few years, can you discuss if you think M&A will become an increasing focus going forward, which of the business segments you might be most interested in for M&A, the relative size of deals you're generally looking at and then, financially, just remind us of the key criteria?

Robert Sands

Yes. So I would say that our M&A strategy remains the same. And I would refer you back to our capital allocation strategy in general, which continues to focus on keeping our debt level sort of in that 3.5 range, returning monies to shareholders in the form of share repurchases, dividends and dividend increases and selective M&A, mostly or, I should say, almost entirely of tuck-in type brands, more of the Meiomi kind of nature. So we just made one, Schrader, which I mentioned. So we're going to continue pretty much along that path. We'll look for brands across, actually, beer, wine and spirits that we think fills niches that we don't have, that we think are highly synergistic with the platforms that we have across those 3 segments. So I would say really, nothing at all has changed, and I wouldn't expect anything different than what we've been doing.

Operator

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

Vivien Azer

So given how robust your trends are, it really stands in very sharp contrast to some of the softening that we're seeing kind of more broadly in the beer category for a number of your competitors. So a 2-part question, please. Number one, if you could kind of just give us your view of what's happening more broadly in beer. And then, number two, given this evolution of the competitive dynamic, how does that inform your optimism around distribution gains? Because I would think, given how strong your growth is, it should facilitate that conversation with retailers.

Robert Sands

Sure. Now we've said no 2-part questions, but for your benefit, I'll combine that into 1 answer, okay? First of all, because I think it is really one answer. Broadly, what's going on in beer, all right, is you see beer as generally flat to slightly down market. We believe that the whole beer market in general is fairly tied to the growth or lack thereof in LDAs, legal drinking age people of 21. That's flattish, and therefore, we see beer as flat. However, within beer, there's a significant shift going on away from the domestic premiums, okay, the Bud Light, the Coors Light, Miller Lite, towards the high end, and that's a pretty stark shift that's going on. The beneficiaries in the high end are largely our portfolio and craft, okay, which continues to be a fairly robust category and continues to grow. And then our business, which is about the same size as craft, the whole craft segment – and of course, our business remains the most robust portion of the wine business. So you see the domestic premiums in decline, and then you see our portfolio, craft and some FMBs like Mike's taking that all up. And as you've seen or read in our previous conferences, we've pretty much shown the actual analytics behind how we think that, that's going to play out in the future, with the domestics dropping quite a bit and our portfolio picking up a lot of it. And of course, you see it in IRI, where we picked up. Constellation constitutes 60% of the growth in the beer market. So what we've said is going to happen the past is, in fact, happening. I think that fundamentally answers your question.

Operator

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

Nik Modi

So on Corona Premier, it looks like these test markets are progressing fairly well. How much time do you guys need before you can make an assessment on a national launch? And then just a housekeeping item. What were the shipments and depletions in beer ex Ballast Point? Just if you could give us that number.

David Klein

So on that, Nik, the Ballast Point was about a 50 basis points drag on depletions for total beer.

Patty Yahn-Urlaub

The national rollout on Premier.

David Klein

On Premier.

Robert Sands

Yes. So I didn't answer the national rollout for Corona, but Premier and Familiar both, I would say are actually exceeding our expectations in test market. We haven't made a decision on an actual date for national rollout, but I would expect that decision to come fairly soon, and I would say that it's likely to be a favorable decision on national rollout. So that's about as much as we can say at the moment, but…

Operator

Your next question comes from Judy Hong of Goldman Sachs.

Judy Hong

So I guess I have to ask a beer margin question. So clearly, 40%, pretty impressive here. David, just I think your comment about this may not be sustainable for the balance of the year, so just trying to get a little bit more color around that. D&A and pricing, I think it's essentially a wash. The peso, I guess, is becoming a little bit of a headwind. But when you talk about the headcount increase, that's potentially a headwind. Can you just elaborate on – sort of quantify what that means? Can you compare the brewery margins for Piedra and Obregon and other kind of headwinds you're envisioning for the balance of the year?

David Klein

Yes. So the first thing I want to say is that the operations teams at Nava and at Obregon performed exceptionally well in the first quarter while the plants were operating at high utilization levels. And I would say that's a portion of our – or our rationale, really, for increasing our EBIT growth rate for beer was really – we've been pleased by the lack of transition friction at Obregon that we, perhaps, expected going into the year. So now for the remainder of the year, I would – Judy, I think the biggest headwind that we see is really coming from FX in the business. In Q1, on a year-over-year basis, in Q1, we actually had a bit of a tailwind from FX. But we know that right now, the peso is sitting below MXN 18 to the dollar, and we disclosed in the beginning of the year that our guidance was based around MXN 20 to the dollar. That presents a pretty significant headwind for us. Beyond that, we also mentioned depreciation. That's quantifiable, right, because we've already said that our depreciation is expected to be up about $60 million on the year. And then we have – as we get to – as we move through the year, we're bringing in more – as we bring more equipment online, we're bringing in about 300 additional heads, which will put a bit of a drag on our business at the same time that utilization starts to fall off in the plants, right? Because remember, we run them at high utilization throughout Q1 and Q2, and then it drops off a little bit at the back half of the year. And then – and I know I say this every single time we talk about margins, but you just have to continue to expect volatility in our margins as we try to optimize the lines and brew trains that we bring into service over the course of the year. So we're really happy to have achieved 40% operating margins in Q1. And I guess I'll say, Judy, you kind of called that before anybody else, but we do have to be careful because there are some significant and real headwinds for the rest of the year.

Operator

Your next question comes from the line of Andrea Teixeira of JPMorgan.

Andrea Teixeira

Just going back to the point about the cadence of beer during the quarter, and there has been, obviously, a lot of volatility, especially from your competitors, and your shipments have been lower than depletions, which obviously is the nature of the business itself. But can you comment on the cadence throughout the quarter – down the quarter and if you're seeing acceleration of the shipments as you go into your second quarter.

David Klein

Yes. I think, Andrea, the real disconnect in Q1, really, was because of the strength of our depletions coming out of Cinco and then going into the Memorial Day holiday, and it's just a timing issue in terms of getting our shipments to align. Not necessarily on a growth rate basis but on a case rate basis, we expect shipments and depletions in beer to align over the course of the year. There'll just be fluctuations between the quarters.

Andrea Teixeira

And one last follow-up question, sorry, because it was about, like, the previous question on the FX. From what I understand, you're hedged – from your K, you're hedging about 50% of your exposure, correct, to the peso at the MXN 20 level, and the rest is actually floating.

David Klein

Well, so about half of our currency exposure for the remainder of the year is hedged. It's hedged at a very – at various different levels and – but it's included. The hedges that we have is included in our outlook. We value the contracts at the same time we're valuing the remaining exposures.

Andrea Teixeira

And you're also including that effect on your financial expenses, right? Your outlook for your financial expenses include the cost of the hedges and the reset of the hedges, correct?

David Klein

Yes. Correct, correct.

Operator

Your next question comes from the line of Stephen Powers of UBS.

Stephen Powers

A question on Pacifico and the plans there just given what you're seeing from the broader market competitively, both old and new competitors. And I think the most obvious new catalyst is Sol moving into Molson Coors' hands. Does that change at all how you're thinking about the timing and/or approach to the ramp of Pacifico over time?

Robert Sands

No, not at all. There's always a few Mexican brands that are being introduced by various parties, whether it's Molson Coors or ABI. I mean, that's not going to change. And what I've emphasized about that is that the growth in – a large part of the growth in the beer business is in our portfolio. A lot of people talk about it as in imports or in Mexican. Well, it's really Constellation's imports in Mexican portfolio. So these other entrants don't really concern us very much. And Sol's been around forever, and it might sell, I don't know, a couple hundred thousand cases in the entire United States, so I don't see it as particularly important. Now Pacifico, you asked about that. Pacifico is just also on fire without our, frankly, doing too much to drive it. And we are ramping up our plans to drive Pacifico, and we sort of see it as, perhaps, the next big thing right behind Modelo Especial. I mean, we have a lot of sort of anecdotal evidence as far as some market research that indicates that the consumer acceptance of the product is wildly overwhelming. Historically, we didn't drive it because we didn't have the capacity to do anything more than what we're doing. We now have the capacity. It's coming onstream, and Pacifico is definitely the next logical thing to really drive behind Corona and Modelo Especial. So we're, I'd say, extremely optimistic about that. In addition to our NPD, Premier, I think, has a huge amount of promise, and Familiar is like a phenomenon already. So we're excited about all 3 things.

Operator

Your next question comes from Mark Swartzberg of Stifel, Nicolaus.

Mark Swartzberg

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My one question, wine and spirits margins. It's only 1 quarter, but they're dramatically above the way we all on The Street modeled it, and yet you haven't changed your full year margin view. My question is, obviously, we could have just gotten the modeling wrong, but to what extent did you consider the first quarter disappointing from a revenue perspective? And what else prompted you not to increase the margin guide for that portion of your business?

David Klein

Well, so first, Mark, the thing that I think is becoming or should be becoming more and more obvious is that while there's a lot of focus on the beer business, our wine and spirits business is a very powerful business, with margins that are approaching 30%, and we've stated publicly that our goal is to get them to 30%. So what's tempering our expectations for the remainder of the year are really 2 things. One is we got about 200 basis points of year-over-year improvement in wine margins as a result of the sale of the Canadian business. For the full year, that 200 basis points is more like 100, right, because we sold the wine business before the end of last – well before the end of last fiscal year, right? So there's 100 basis points of that benefit that goes away over the course of the remainder of the year. And the second thing is you might recall that our promotions expense is accrued based upon depletions, not shipments. So we got some benefit in the quarter because of the difference between our shipments number and our depletions number. So we're very optimistic about wine margins, and we – our guidance for the year assumes that there's wine margin leverage, and so we remain committed to that. We're just remaining cautious because of the 2 items I mentioned.

Mark Swartzberg

And would it be fair to say that because depletions were down, they were disappointing versus your plan?

David Klein

I would say that we're on track to achieve our guidance for the year. As Rob called out in the script, we had some planned promotion timing differences that affected our depletions in the first quarter. Now clearly, we never want negative depletions, but we remain confident in our full year guidance.

Operator

Your next question comes from Pablo Zuanic of SIG.

Aatish Shah

It's actually Aatish for Pablo. So one question. In regards to your typical retail store, would you be able to comment, on average, how many SKUs you would have for Corona versus Modelo Especial? Is it like 1:1, 3:1? Any kind of rough idea would be helpful.

Robert Sands

As a company, we have very few SKUs as a general proposition, but I don't know the answer exactly to your question, how many SKUs of Corona do we have versus Modelo Especial. We'll get back to you on that. Patty will give you a call.

Operator

Your next question comes from the line of Tim Ramey of Pivotal Research.

Timothy Ramey

So as I recall, these are the best-ever margins in wine and beer. And as spectacular as they are, really, the biggest news, I think, in the quarter is the ability to issue this debt at amazing rates, which gives you a tremendous amount of optionality in the M&A market. Rob, you kind of soft-pedaled that, saying it's incremental, it's tuck-ins. But there was a rumor of a very large deal this quarter, and it seems like, with your current balance sheet, you may be really well positioned to do a major deal. Can you talk about not anything specific but the optionality of a significant deal?

Robert Sands

Yes. I mean, I think that it remains fundamental, as I said, which is I think the real opportunity is brands and tuck-in deals, and that's something that we can keep doing and do it and meet our financial disciplines, which is an important part about it. I mean, we buy brands like Meiomi or other brands. We can tuck it into our existing infrastructure. These things are growing very high double digits, and we are buying them at reasonable multiples, which, post-synergies, are multiples that generate actually a very high return. So I'd say fundamentally, that strategy versus buying something really big is a good strategy from a financial perspective and from the perspective of positioning our portfolios across wine, beer and spirits for continued growth, which – growth and margins, which is – that's really the strategy, right, is to keep driving this kind of growth and these kind of margins and the kind of leverage that we're seeing in our P&L by – at least as it relates to M&A. Now there's other elements of it like NPD, things like Premier and Familiar. But as it relates to the M&A, we can keep sort of adding, on a very financially viable basis, these kind of brands. Now as far as anything big goes, there's 2 issues there. One is there's nothing for sale; and two, there's very little that would be of any interest even if it was for sale fundamentally for 3 reasons, right? There's the financial element of it, will it generate the kind of return that we want it to generate; and then, number two, we go back to sales growth and margins. There's very few big things that wouldn't potentially be somewhat deletive (sic) [dilutive] to our sales growth and to our margins. So we would tread pretty carefully on anything like that. So in the end, if we're talking about big things, you can count it on half a hand, right? There isn't that much big in the business.

David Klein

Yes. I would also add to that, Rob, that…

Robert Sands

And you can exclude ABI.

David Klein

And I would add to that.

Robert Sands

They don't have the growth either, but they do have the margin.

David Klein

Last year, we bought 1.2 billion of our own stock back at $151 a share, so we still think we're the best buy in alcohol.

Robert Sands

Yes, that's looking pretty good right now, that investment.

Operator

Your next question comes from Robert Ottenstein of Evercore.

Robert Ottenstein

I was wondering if you'd give out a little bit of clarity. There's just a question that I have around guidance and a comment that you made, Rob, early on if I got it right. And that is despite raising the EPS guidance, it looks like you're keeping your cash flow guidance flat. There was also, though, a comment that you said earlier on that the progress you're making, I think you said, at Obregon and some of the other facilities was allowing you to moderate the rollout or the expenditures in Mexicali, if I got that right. So I'm just trying to put those items together to think through what your cash flow guidance means here.

Robert Sands

Yes. So I'll let David answer part of this question, but my comment about Obregon and Mexicali was just really more of the same. In other words, the guidance that we've given thus far on our CapEx as it relates to Mexicali and Obregon hasn't changed, and we basically told you about that when we acquired Obregon. We basically said that we were going to cut Mexicali the initial first stage of it back to 5 million hectoliters because we didn't need to go to the full 10 million hectoliters on Mexicali given that we bought almost that amount in Obregon, and we'll have that amount as we make some small modifications to Obregon. So like there's really no difference, let's put it this way, between what we said previously at the end of the year and what we're saying now. We were just, in essence, repeating ourselves. And then as to your point on EPS and cash flow, I'll let David talk about that.

David Klein

Yes. So Robert, I think on total cash flow guidance, the largest lever, as you're pointing out, is our capital expenditures. And I would just say that 1 quarter into the year, it's just – it's too early to call any changes there. But we clearly carefully manage our working capital and our CapEx spend to optimize those numbers.

Operator

Your next question comes from Laurent Grandet of Crédit Suisse.

Laurent Grandet

So with approximately 75% of retail market share in Mexican beer, could you give us some comfort as to why you think retailers will give you more shelf, more market share? Not usually their typical mindset to put all their eggs in one basket, especially now that there is a bit more competition coming in Mexican beer.

Robert Sands

Yes. I think it's fairly simple, and that is that our shelf space relative to our market share greatly, greatly under-indexes. I mean, I can't even tell you what that number is, but we have a much smaller percentage of the shelf in the store, right, than we have in market share, and the proposition is simple, okay? Increase our shelf space, and you'll sell more of our beer. And it's not just shelf space, it's cold-box space as well, versus giving that space to declining low-margin products. So you get 2 choices, right? You can give the space to us and sell more of a high-margin item or give the space to somebody else and watch your sales and velocity and your margins decline. So as I go around and talk to retailers, they get that, okay? And I can tell you right now, retailers need to do a significant rethinking of their assortment in beer. Fundamentally, their beer assortment makes no sense anymore for them on the assumption that their goal is to improve their sales and margins as a business, okay? It makes no sense to have 20% of the store allocated to 5 billion crafts that nobody's ever heard of, and then they have the vast majority of the rest of the store allocated to low-margin, declining brands and then a small amount of the store allocated to fast-moving, high-margin, high-end brands. It just doesn't make any sense. And so I think you'll see us – I think you'll see a change in that. And we're certainly driving – as the high-end leader in beer, right, we hopefully will be driving that change because I think it's a change that has to happen sooner or later, and that's going to dictate – probably, as that change occurs, you'll actually see these trends in beer, they'll actually accelerate, which is part of the reason why it doesn't occur because those who are hanging on are trying desperately to hang on to everything that they've got to mitigate precisely that scenario. And for us, it's just a gigantic opportunity because we're punching under our weight. So we have the opportunity to not only generate the kind of performance that we've been generating but enhance that performance if we could start – if we could get retailers to understand and act. They understand it. It's getting them to act on it. And we're having some success in that regard, and we expect to have more success in the future. And I think you will see retailers start rethinking their assortment in beer to take advantage of the high end and Constellation opportunity, in particular.

Operator

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

Stephanie Benjamin

This is actually Stephanie on for Bill. I'm just trying to get an understanding on the wine business organic growth. So obviously, you're entering here the first and second years after your Prisoner and Meiomi acquisitions. So how much of the growth of the quarter is coming from distribution gains? And should we start to see some tougher comps in the remainder of the year? Or I guess kind of put another way, is the growth coming from distribution gains kind of compared to the overall growth of the market? Just more color there would be helpful.

Robert Sands

Yes. I would say fundamentally, organic growth, it's hard – that's an interesting number that's hard to get at. But I think that you can fundamentally look at IRI as the best measure of our organic growth, which – I think that the market's growing sort of low single digits right now, call it in that 3% type range with a couple of hundred basis points of price/mix. And we expect to grow in line with that organically and fundamentally, with some quarter-to-quarter type fluctuations, but I think we feel fairly confident that that's what the year is going to end up looking like in general. And our ships and our depletes will equal each other by year-end. And as I said, I think that you'll see sort of a convergence between ships, depletes and IRI in our wine business. That's sort of how things are shaping up, which is good. I mean, I think it's strong performance, especially given the profitability of that business and the fact that we can then leverage – we think that we'll be able to leverage that, as we've guided, to generate higher – even higher bottom line returns. So it's very, very strong business in many respects. I always like to say it's only in contrast to the beer business that these questions even get raised. I mean, it's a stand-alone business generating 30% margins, sort of almost mid-single-digit sales growth, leveraging the P&L. If you weren't looking at it in contrast to our beer business, you'd be running around saying, oh, this is one of the best businesses that there is. So even looking at ROIC, which nobody even talks about anymore, I don't know why, but our ROIC in wine is up in the double digits. And then if you look at the accretion of ROIC, it's like high teens, low 20s, 20% return on invested capital for any incremental growth that we have in our wine business. So by almost any standard that you can imagine, it's a tremendous business. Nothing looks like it except for other alcoholic beverage companies, and not too many of them, and tobacco. I mean, that's about it. And tobacco is tobacco. And then it's all downhill from there. So it's the pinnacle of performance pretty much other than our beer business and a couple of others, perhaps.

Operator

Your final question comes from the line of Caroline Levy of Macquarie.

Caroline Levy

Just digging into your core portfolio, could you tell us how Corona performed as well as Corona Light? Just to get a sense of your flagship brand – sorry, Modelo Especial and Corona Light. And then as a measure of success for Premier, are you looking at it in terms of how much share it takes or whether it impacts Ultra? Or how are you thinking about things when you said it's doing well?

David Klein

Yes. So actually, Rob, in his script, talked about Modelo Especial approaching 20% depletion growth. Corona Extra was in the 6% range, and Corona Light was a little bit less than that. So all of the brands are performing quite well. And Rob, maybe you want to take the Premier question.

Robert Sands

Yes. I think that Premier looks very strong. We're looking at things like velocities per point of distribution, which appear to be very strong. Cannibalization is not something we're overly concerned with because there's really no margin disadvantage. And so as long as 1 plus 1 equals 3, we're okay with that. Now we don't want cannibalization on something that's good with something that's not going to be sustainable. So the big key is just making sure that – we believe that from a consumer acceptance point of view, that Premier represents a sustainable and growing proposition, which, right now, I would say, our preliminary read on that is that it's looking pretty good in terms of the contributions that it can make, its sustainability, its positioning in the marketplace. I mean, look, needless to say, what are the hottest brands in beer, right, of any size? The hottest brands of beer of any size are basically Corona, Modelo Especial and Mich Ultra, okay? Premier is a more upscale, more premium competitor to Mich Ultra with the power, and this is probably a very important point, right, because anybody can make a beer with the calorie and the carb characteristics of Mich Ultra, but with the power of an elite brand behind it, with all of the consumer acceptance and recognition that goes with it. So it's definitely a segment of the market that I think is hot. It's here to stay. It's what's been driving Mich Ultra. I think it's going to drive Corona Premier as well because it's got the characteristics. The liquid in the bottle is great. Obviously, we test all that, and we test it against competitors, and we test it with consumers who drink that kind of beer, okay? And we have extremely positive results on that. So I think it's looking very good, and it's important to remember that, right? Its consumers – Premier is targeted to consumers who drink that kind of beer and are looking for precisely that profile of product. So if you're a double IPA drinker, yes, of course, you're not drinking Mich Ultra and you're not going to drink Premier. On the other hand, if you're a Mich Ultra drinker, I think Premier makes a – is a nice alternative to that in every respect.

Operator

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

Robert Sands

So thank you very much, everybody, for joining today's call. I want to reiterate how very pleased we are with the fantastic execution that drove our excellent first quarter results. And my kudos to our people, our distributors, our retailers who continue to be part of the virtuous cycle that drive those results. We're very optimistic about our future business opportunities, which gives us the confidence to raise our full year EPS guidance. And as we head into the July 4 holiday weekend, I hope you remember to bring some of our fine wine products as well as beer products and spirits products to your celebrations and to please enjoy them responsibly. So thank you, and everyone should have a great 4th of July weekend.

Operator

Thank you. That does conclude the Constellation Brands First Quarter 2018 Earnings Conference Call. You may now disconnect.