Constellation Brands Inc, Q1 2020, Earnings Call 2019-06-28

Presentation

Operator

Welcome to the Constellation Brands Q1 Fiscal Year 2020 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, Daniel. Good morning, and welcome to Constellation's First Quarter 2020 Conference Call. I'm here this morning with Bill Newlands, our CEO; and David Klein, 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 we make on this call. — ***Operator Instructions*** —

Thanks in advance, and now here's Bill.

William Newlands

Thank you, Patty, and good morning, everyone. Welcome to our discussion of Constellation's first quarter sales and earnings results, which reflect an excellent start to our new fiscal year. Before I get started with our business review, I would like to emphasize 3 key takeaways on this morning's call. Number one, we are confident in our ability to close the wine and spirits transaction with Gallo, which we expect will occur in the second half of calendar 2019. For now, we have updated our fiscal 2020 EPS guidance to assume that we close at the end of the second quarter, but we will adjust accordingly as we get more clarity on the exact timing. Meanwhile, we are fully committed to supporting our entire portfolio throughout the transition.

Number two, the transformation strategy for our wine and spirits business is working, led by the power brands in our portfolio, which achieved over 4% depletion growth in the first quarter. This collection of faster-growing, high-margin brands is expected to drive the growth of the business going forward.

And number three, we posted strong net sales and margin results for our beer business in the first quarter, driven by continued outstanding performance by our growth engine that is Modelo Especial. In addition, we are pleased with the nearly 7% overall depletion growth, even with Corona Extra seeing some impact from unfavorable weather in several of our largest markets during the quarter while overlapping last year's highly successful launches of Corona Premier and Corona Familiar.

Bottom line, we remain confident in our ability to achieve 7% to 9% net sales and EBIT growth for our beer business in fiscal '20. Speaking of beer, during the first quarter, the Constellation beer business continued to gain share with growth across all channels, driving 1/3 of the growth of the high-end U.S. beer market. Modelo Especial was the most significant growth contributor within our portfolio for the quarter. This exceptional brand has excellent marketplace momentum and achieved the #1 spot as the top share gainer in the U.S. beer category, with depletion growth of more than 17%, a sequential acceleration compared to our fourth quarter trend.

We continue to reap the benefits of our Modelo advertising investments, which are resonating with both our core and new consumers. We recently launched the Modelo 32-ounce bottle as we continue to take advantage of the single-serve and distribution trade-up opportunities we have in the off-premise. We also made excellent progress in the on-premise with the Modelo draft format increasing more than 20% for the quarter.

Corona Premier continues to drive the Corona brand family performance. The national TV advertising campaign as well as the draft rollout are propelling the momentum of this brand, which was a top share gainer in IRI channels, while also posting double-digit depletion growth during the quarter.

This summer, Corona Premier began a multiyear sponsorship deal with the United States Golf Association to be a proud supporter of the U.S. Open. And the newest innovation in the Corona brand family, Corona Refresca, which launched nationally at the end of May, has already gained all commodity volume, or ACV, distribution of more than 30 since its introduction. Pacifico also produced strong double-digit depletion growth this past quarter, driven by the national advertising campaign and retail promotions, which are increasing Pacifico's in-store presence.

Overall, I believe we are well positioned throughout the remainder of the summer selling season with a great lineup of marketing and promotional activities to support the ongoing growth momentum of our entire beer portfolio.

Moving now to wine and spirits. As you know, Robert Hanson was recently hired as our new President of the wine and spirits business. Robert was previously a 6-year valued member of our Board of Directors and has extensive consumer product experience from his prior senior management roles at John Hardy, American Eagle Outfitters and Levi Strauss. Robert shares the Constellation passion for developing brands that consumers love, and we are thrilled that he has joined our executive management team. Welcome to Robert.

The wine and spirits business delivered first quarter results that exceeded our previously communicated expectations. As I mentioned, our power brands posted industry-leading depletion growth of over 4% for the first quarter. This portfolio includes key brands like Kim Crawford, Meiomi, SVEDKA vodka, the Prisoner and High West, which continue to outperform the market and gain share. Overall, we expect these brands to be the key drivers of the business long term, and we are extremely bullish on the future runway for these higher-growth, higher-margin brands.

In addition, our wine and spirits innovation agenda has been successful with a focus on fast-growing categories, emerging formats and new flavor combinations. We'll continue to expand our Bourbon Barrel-Aged innovation program, which has been a resounding success, selling over 1 million cases in its first 2 years. A great example includes the new Robert Mondavi Private Selection, Rye Barrel Aged Red Blend, which is the first Rye Barrel-Aged wine introduced at a super-premium price point. In July, we'll begin shipping Eternally Silenced, which is the first pinot noir addition to the Prisoner portfolio. This premium product introduction will be sold in the over-$50 price segment. We will continue to support our innovation and brand-building efforts throughout the remainder of the year with impactful marketing campaigns to strengthen and build the portfolio. We have solid programming in place for our key power brands this summer, including the launch of a new TV advertising campaign for the Woodbridge portfolio.

In addition, we have forged a relationship with the NFL to not only promote and sell our Woodbridge brand, but to introduce our new Crafters Union wine in a can, which is the perfect format for football games and tailgating. Kim Crawford continues to align with consumers through its partnership with the U.S. Open and other major tennis events, and recently launched a new TV and digital advertising campaign that will be featured this summer. These campaigns and sponsorships are just a few examples of the initiatives we have planned to strengthen the portfolio, drive consumer awareness and incremental growth.

Our spirits portfolio has recently gained momentum with increases in growth and velocity across the SVEDKA portfolio, bolstered by the new "Bring Your Own Spirit" national advertising campaign, plus the new innovation in the product line up, SVEDKA Rosé, is already exceeding expectations. During the quarter, Constellation Ventures acquired a majority stake in Nelson's Green Brier, which is an iconic Tennessee whiskey that plays well in emerging categories of American whiskey and craft. It is the first ventures investment that will be fully integrated into the Constellation sales and distribution network, which provides a significant opportunity for growth of this brand.

With our market reach, distributor partnerships and consumer insights, we are especially excited about the introduction of Nelson's Green Brier unique Tennessee whiskey to consumers this fall, while the award-winning Belle Meade Bourbon brand continues its rapid market growth.

As we begin the transformation journey for our wine and spirits business, I would like to reiterate our long-term goal for this business as we intend to grow net sales in the mid-single-digit range with operating margins migrating to 30%. This quarter, we have made progress toward that goal, and we look forward to shaping our wine and spirits business to be a best-of-class consumer goods portfolio with a market-leading sales and margin profile.

Now, a few comments about our investment in Canopy Growth, which continues to be the global leader in total cannabis sales. During the quarter, Canopy Growth and Acreage Holdings entered into an agreement that grants Canopy the right to acquire Acreage and enter the U.S. cannabis market once federally permissible. We are excited about this opportunity as it provides a path for Canopy to have a leading position in the U.S. upon federal cannabis reform. Recently, Canopy and Acreage shareholders overwhelmingly approved this transaction, which will provide the opportunity for Constellation to extend the duration of Canopy warrants, which provides long-term financial flexibility for cash deployment to our shareholders. David will provide additional details on that later in the call.

And while we remain happy with our investment in the cannabis space and its long-term potential, we were not pleased with Canopy's recent reported year-end results. However, we continue to aggressively support Canopy on a more focused, long-term strategy to win markets and form factors that matter while paving a clear path to profitability. We believe some of these branded form factors include vape, beverages and edibles that will command higher margins. These products in Canada as well as CBD products in the U.S. are expected to come online during the fourth quarter of this calendar year.

In closing, I am pleased with our strong start to the year. Excellent execution of our first quarter results demonstrates that we continue to deliver on our key strategic imperatives across our beer, wine and spirits businesses. And I'm excited about the prospects across the business for the remainder of this year. With that, I would like to turn the call now over to David, who will review our financial results from the quarter.

David Klein

Thanks, Bill, and good morning, everyone. Fiscal '20 is off to a great start. Core business results exceeded expectations, with operating cash flow up 18% and free cash flow up 30%. These strong results were primarily driven by our beer business, which generated 12% operating income growth. We've increased our full year comparable-basis diluted EPS range to $8.65 through $8.95. This range excludes Canopy equity earnings impact and now assumes revised transaction timing to sell a portion of our wine and spirits business that Bill outlined. The $0.15 increase in EPS guidance represents one additional quarter of EBIT from the portion of the wine and spirits business that we've agreed to sell, partially offset by a delay in cost-savings realization, now expected to be at the low end of our fiscal '20 range of $35 million to $55 million, and incremental interest expense due to debt paydown now targeted for the second half of fiscal '20.

After the transaction closes, we continue to expect to eliminate a total of $130 million of stranded costs from our wine and spirits business by the end of fiscal ’21.

Now let’s review Q1 performance in more detail, where I’ll generally focus on comparable-basis financial results. Starting with beer, net sales increased 7% on shipment volume growth of 5%. Shipment volume was higher than expected, primarily due to additional shipments made at the end of the quarter as part of efforts to mitigate potential tariff risks. As a result, the beer shipment timing benefit at the end of fiscal ’19 is now expected to reverse during the remainder of fiscal 2020 since it didn’t occur in Q1. Depletion growth came in at 7%, continuing our streak of excellent portfolio performance during the key Cinco and Memorial Day holidays. This growth is compared to strong depletion growth in the prior year of 9% driven by new product launches, generating 2-year average growth of 8%.

Beer operating margin increased 150 basis points to 39.3%, as favorability in pricing and FX were partially offset by higher transportation and logistics costs. Marketing as a percent of net sales increased 20 basis points to 11%, driven by planned upfront marketing investments to support our brands leading into the summer selling season as outlined by Bill earlier.

For fiscal ’20, we continue to expect net sales and operating income growth of 7% to 9% and our full year operating margin to approximate 39%. This includes 1% to 2% of pricing within our Mexican portfolio. As a reminder, we’re facing a 10% depletion growth compare for Q2. In addition, we expect some of the shipment timing benefit mentioned earlier to reverse in Q2. And as a result, we expect Q2 net sales and EBIT growth to be in the mid-single digits range. We continue to expect our gross margin to be flattish for the year as cost inflation headwinds and growth investments are expected to be mostly offset from product pricing and productivity initiatives.

Gross margin will also be impacted by the reversal of the shipment timing benefit in the remainder of fiscal ’20. We continue to expect fiscal ’20 marketing as a percent of net sales to increase around 20 basis points to 9.5% in support of our innovation and growth initiatives. Q1 fiscal ’20 wine and spirits net sales and operating income decreased 8% and 4%, respectively. Q1 fiscal ’20 shipment volume declined 8% due to the fiscal ’19 shipment timing benefit mentioned last quarter. This mostly reversed in Q1. We expect the remaining fiscal ’19 shipment timing benefit to reverse in Q2 and this, along with the difficult year-over-year comparison, are expected to result in wine and spirit net sales and EBIT for Q2 fiscal ’20 to decrease 5% to 10% and 10% to 15%, respectively.

Our fast-growing, high-margin power brands like Kim Crawford, Meiomi, SVEDKA Vodka, the Prisoner, High West, and Schrader generated depletions of greater than 4%. Overall depletion trends of minus 1% were muted by lower-end brands. Wine and spirits operating margin increased 90 basis points to 25.9%, primarily due to favorable pricing, along with lower marketing and SG&A costs, partially offset by unfavorable mix. The lower marketing and SG&A benefits were due in part to a shift in timing of spend into Q2 as we have a significant ramp in spend to support the power brands during the summer selling season. This shift helped us outperform our original Q1 EBIT guidance.

We now expect fiscal ’20 wine and spirits net sales to decrease 20% to 25% and operating income to decrease 25% to 30% due to the revised timing of the wine and spirits transaction discussed earlier. I’d like to echo Bill’s confidence that the wine and spirits transformation strategy is already working. And as a result, in fiscal ’20, we’re targeting mid-single-digit power brand depletion growth. Longer-term, we expect the business to produce mid-single-digit net sales growth while migrating to an operating margin of 30%.

In Q1, we recognized $72 million of charges in connection with ongoing efforts to gain efficiencies and reduce the cost structure of the business. These charges, which are primarily related to the wine and spirits business, were excluded from comparable-basis results. The charges include costs associated with certain write-downs of excess inventory, contract terminations and organizational structure changes. Roughly half of these charges are related to cash outlays expected to occur in fiscal 2020, which have been factored into our operating cash flow guidance.

Interest expense for the quarter increased 31%, which reflects interest expense of approximately $40 million related to the funding for our incremental Canopy Growth investment in November 2018. Fiscal ’20 interest expense is now expected to be in the range of $425 million to $435 million, which reflects incremental interest related to revised timing of the wine and spirits transaction, partially offset by anticipated rate favorability.

Our comparable-basis effective tax rate for the quarter came in at 17.6% versus 21.4% for Q1 last year, primarily driven by the overlap of unfavorable onetime items and a lower rate on foreign earnings, partially offset by lower stock-based compensation benefit. We anticipate that our Q2 fiscal ’20 effective tax rate will be similar to the Q1 rate, in the 18% range. However, we continue to forecast our full year fiscal ’20 effective tax rate to approximate 17%, with stock-based compensation benefits expected to be weighted towards the second half of the year.

Moving to free cash flow, which we define as net cash provided by operating activities less CapEx. For Q1, we generated $437 million of free cash flow compared to $336 million last year. This impressive 30% growth was primarily driven by strong beer operating cash flow results and lower CapEx. We now expect fiscal ’20 free cash flow to be in the range of $1.2 billion to $1.3 billion, and operating cash flow to be in the range of $2 billion to $2.2 billion. This reflects revised timing of the wine and spirits transaction.

We continue to expect CapEx of $800 million to $900 million. This includes approximately $600 million of CapEx for our Mexico beer operations expansion, including investments in the Obregon and Mexicali breweries and the fifth glass furnace at the Nava glass plant.

Shifting to our investment in Canopy Growth. The total pretax net gain recognized since our initial Canopy investment in November of 2017 is $1.6 billion. In Q1, we recognized an $828 million decrease in the fair value of the Canopy Growth investment, which was excluded from comparable-basis results.

As Bill mentioned, Canopy Growth and Acreage shareholders approved Canopy Growth's proposed acquisition of Acreage. As a result, certain Constellation warrants were modified to include longer duration and revised pricing. We expect to recognize a material gain on our modified Canopy warrants in Q2 to reflect these changes and we'll exclude that gain from comparable-basis results. These warrant modifications allowed Constellation more time to assess how the cannabis landscape is progressing before the warrants expired. Coupling our new warrant structure with our business' strong cash generation provides incremental, long-term flexibility for cash deployment to shareholders. So we remain committed to returning $4.5 billion to shareholders in the form of share repurchases and dividends from fiscal '20 to fiscal '22.

As summarized in the earnings release, first quarter fiscal '20 comparable-basis diluted EPS, excluding Canopy equity earnings impact, totaled $2.40 per share, representing growth of 9%. Canopy's business is rapidly evolving, and their financial results will likely be volatile as they invest in growth opportunities. Similar to this quarter, we plan to release an 8-K after Canopy reports earnings to disclose Canopy's impact on our quarterly results. I'd like to remind everyone, Canopy equity earnings recognized in our income statement are noncash, and we've not factored Canopy equity earnings into our fiscal '20 comparable-basis EPS guidance range of $8.65 to $8.95. This will allow us and our investors to focus on the underlying performance of our core business.

In closing, we're off to a strong start for fiscal '20 as we continue to benefit from secular trends like premiumization and favorable demographics. We believe the investments we are making in support of growth opportunities today position us to generate industry-leading growth while we deliver on our fiscal ’20 commitments. With that, Bill and I are happy to take your questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from Judy Hong with Goldman Sachs.

Judy Hong

So I guess I wanted to zero in on the beer depletion growth, particularly around the Corona brand family. Clearly the weather was a factor, but it’s sort of – how much does your analytics kind of point to weather being a factor versus Modelo, obviously, accelerating, and you talked about the cannibalization impact from Modelo, and then clearly the Spiked Seltzer category kind of booming, how much of that is also cutting into the Corona brand family? And kind of dovetailing that, if you think about the mid-single-digit depletion guidance for second quarter, can you just talk about the drivers of that other than just the comparison? How much is really the shipment underperformance? Or is there a little bit more caution around depletion just given the poor start to the summer given the weather?

William Newlands

All right, Judy. We will try to wrap that into one thought. So here we go. The – look, we are comfortable with where Corona is as a brand. If you look at the most recent IRI trends through [6/16], Corona Extra is up, admittedly against very tough overlaps with the weather challenges that we had during the first quarter. It’s also appropriate to recognize that with the accelerating Modelo trends of 17% growth, that certainly has some impact within the overall portfolio as well. And certainly, it’s worth noting that seltzer business has become a larger factor in the high end than it had been in prior years. So all of those things certainly have some impact on the overall business. With all of that said, the overall family is roughly flattish. We are comfortable with the – with where that business is looking. And as you noted, our overall depletion profile across our entire business was up just under 7% in the first quarter. If you, in fact, look at June, while taking out the single day, which happened to be a Friday, that we lose in this quarter versus comparable quarter a year ago, the actual depletion rate in the month of June would be above the year-to-date depletion rate.

David Klein

Yes. I want to just expand on that last point that Bill made. So in Q2, when we reported our results, we lose a day of depletions, which doesn't come back until Q4. So it's an anomaly that you guys should factor into your models.

Operator

And our next question comes from Bonnie Herzog with Wells Fargo.

Bonnie Herzog

I just wanted to ask on – just a few more questions on Corona. First on Premier, just want to hear from you guys, were the results in the quarter better than you expected, and if so, why? And then on Corona Light, it's really still not where you want it to be, so maybe drill down a little bit further on any initiatives you might have to improve the brand? And then finally, how much further do you think you can extend the Corona brand? For instance, you're missing an opportunity right now in seltzers, which you just kind of touched on. So is there a way to leverage one of your existing brands, possibly Corona? And what could be the timing of this?

William Newlands

Sure. So let's talk first about Premier. We were very pleased with the results of Premier in the first quarter, keeping in mind it was going against a year ago when we introduced it, which automatically has the normal stock-up scenario when a brand is introduced. With all that said, it was up double digits. And as you know, we have raised the advertising profile of that brand, and we'll be doing so for the remainder of this fiscal year. Relative to the overall family of Corona, as you know, we're very excited about Corona Refresca. We're off to an excellent start against that, and by the way, if any of you haven't had it, I would strongly encourage you to do so. They are really delicious and very refreshing. So that is certainly the focus of our approach for this fiscal year and this summer selling season, is to make sure that we maximize the potential of both Premier as well as Refresca in the overall mix of the Corona brand family. With all of that said, we continue to be excited about the opportunity that we have with Corona going forward. We do recognize that, relative to your question about sell-throughs, that sell-throughs have taken a larger piece of the growth profile on the high end than they had in previous quarters and years. And certainly our view is this, we explore all options where we have the ability to profitably participate in categories, and we will continue to do that. That's a standard way we operate, and we will do that again going forward.

Operator

And our next question comes from Nik Modi with RBC Capital Markets.

Nik Modi

The question is on wine and spirits. So I guess this new Mondavi/Woodbridge ad campaign is hitting the airwaves now. Can you just talk a little about the process here that's different now that Jim has kind of taken over the CMO role? And do you have plans to do similar types of campaigns on other of your power brands in the near term?

William Newlands

Yes, as you know, Nik, the Woodbridge brand is a critical brand for us just because of its sheer size and profitability. The advertising campaign that Jim and the rest of the marketing team have put together, we're very excited about. I don't know if you have seen it yet. If you haven't, I think it's highly compelling. We showed it to our Board yesterday, and we just launched it this week, and we're very excited about the potential because it really speaks to Robert Mondavi's original goal to put great wine at every price point on every table. And I think the advertising that was developed is – does an exceptional job of suggesting just that. But we're not limiting our advertising efforts to that brand. As you've seen, we've spent and raised our profile in SVEDKA Vodka and the brand has responded. The SVEDKA growth profile has accelerated versus prior year. We will also be spending during the course of the summer months on both Meiomi and Kim Crawford. Kim Crawford, in particular, with its lead Sauvignon Blanc, is a terrific wine for the summer season, and both that and Meiomi, in addition to the others that I mentioned, will all be supported during the coming selling season.

David Klein

Yes. And I'd add to that, Bill, that we've – I mentioned in my script that we had favorable price in our wine and spirits portfolio, and that was primarily driven by our ability to get higher realized pricing for Woodbridge and SVEDKA, 2 brands that we're investing behind. And it's that kind of approach to really nurturing CPG brands where we're going to be able to charge appropriately for the equity that exists in the brand, but then we're going to spend back to help the consumers understand the value proposition that we are offering. And that's why we're all really excited about our new approach to our power brands.

Operator

And our next question comes from Lauren Lieberman with Barclays.

Lauren Lieberman

We definitely got asked many times through the quarter sort of our view on the set discounting on Corona cans that was in some of the industry trade press. If you guys could just comment a little bit on pricing strategy for the Corona brand family overall? And to what degree that sort of – these plans and what went on during the quarter was already part of the full year plan and within that 1% to 2% pricing expectation for the portfolio, or it was something kind of newer that came up with the poor weather and so on?

William Newlands

Well, as you know, a lot of individual programming occurs with local retailers. That happens all the time on particular formats and sizes. While that was set, we achieved a strong pricing in the quarter, up 1% to 2%, and we certainly have no uniform discussion of pricing and price promoting. Again, as I said a moment ago, price promotion occurs on a local level a lot and it occurs usually on particular formats to get particular price points during key selling seasons. So we have not moved away from our normal expectation of 1% to 2% pricing and, in fact, we were quite successful at achieving price promotion during the quarter.

Operator

And our next question comes from Vivien Azer with Cowen and Company.

Vivien Azer

Bill, I really appreciated your candor in your prepared remarks about your view of Canopy's most recent earnings results. So I just wanted to dig in on that. In terms of your disappointment in the quarter, I mean certainly the expanded EBITDA losses stand out, but was there any concern around the top line? So any more color on around just that specific comment. And then as a follow-up to that, can you talk about your expectations relative to previous public commentary from CAGNY around the financial results for Canopy going forward?

William Newlands

Sure. We continue to expect that the run rate top line profile by the end of the next fiscal year will be in the $1 billion run rate range. With that said – and we need to all recognize, there are going to be spits and starts around a business like this when various form factors and products either have better acceleration or weaker acceleration than what everybody had anticipated. As you know, Ontario, which ultimately should be the biggest province, has been a little behind some of the other provinces in terms of opening stores, which always impacts things. So there's going to be some spits and starts in this thing. I think what we're – what we remain excited about is that this is going to be a big long-term business, and we are working with Canopy, almost on a daily basis, to ensure that we are all focused on the right things. The things that are going to drive the business, the things and the form factors that are going to matter in a way that gets to ultimate profitability for that business in an appropriate time frame.

David Klein

Yes. And Vivien, I'll comment on our previously made commentary around the business being accretive to our results in '21. Those comments were predicated on Canopy's performance in Canada, their performance in their existing rest-of-world medical markets, return from our $4 billion investment. And they assumed we wouldn't have legalization in the U.S. because, of course, we know legalization in the U.S. would drive large P&L investments, which we'd all be happy to make to be able to participate in that large market. So let me just pick through those and talk about the current state. So in Canada, we know that this business is volatile, as Bill outlined, but we think it's mostly on track with all of our expectations. We know that as it relates to FY '21, that the slight delay in edibles, including beverages in Canada, will likely impact our FY '21 because it's unlikely that Canopy will have the broad array of products in the market by calendar 1 – quarter one, calendar '20, which will affect our first quarter of next year because of the 2-month lag on which we consolidate Canopy – or we recognize income on Canopy. So Canada is on track, but we expect it to be volatile. And the team at Canopy is quite good and really working their way through any execution issues that they may have had in the past.

From the existing rest-of-world medical markets, we think those markets are on track. Again, real strong performance in those spaces by the Canopy team that we're pleased with. In terms of investment returns, we're very happy with the investment in Storz & Bickel, which you saw in their results last quarter. And we're extremely excited about the agreement with Acreage, which, while expected to be a profitable company, won't be consolidated and reported through the Canopy results in a way that would affect our numbers in the foreseeable future until there's a triggering event in the U.S.

And then the last point is really on the unexpected legalization of CBD in the U.S., which will require a significant amount of investment, which Canopy has already announced. And we think that that's a good place for them to focus their money and their resources to really take advantage of what could be a very large and profitable market in the U.S. And we're really happy with how they are positioning themselves there. So look, we still are very bullish on our Canopy investment. And we're very happy we made the investment when we did into this space, which more and more people are starting to wake up to.

As it relates to its effect on our financial results, we're going to continue to assess as we go through FY '20 as to how we will adjust our statements on the accretion or dilution effects on Constellation.

Operator

And our next question comes from Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

Clearly, your margins came in better than expected in the quarter versus your flat implied expectation. I guess some of that was less of a Q1 inventory draw-down than expected, but that would appear to be only a modest portion of the beat. So just curious for the lack of a full year margin raise on the beer business, despite the big Q1 beat. Is that more we're just still early in the year? Or there are other factors in the remainder of the year that might reverse some of that Q1 upside? How should we think about that?

David Klein

Yes. So Dara, I think we still have concerns about the wage rate inflation in Mexico and increased cost of glass and other forms of packaging. We still have freight and logistics headwinds in the business that we continue to see. In Q1, we had some really good benefits from, primarily, pricing and FX and some productivity improvements that were offset by the things that I just listed out. So – and as you said, we had a bit of a benefit from over-shipments in Q1, which works its way down to the growth in bottom line operating margin. And a comment on Q2, we expect that our marketing spend will be up slightly year-over-year from – in Q2, which will have us come in probably a little lower than the 41.2% margin that we achieved in Q2. We tend to max out our margins in Q2. So we'll run a little bit lower than that this year. And then I think any further growth in margins away from the 39% target that we put out, which we feel is the right number for us for this year, will really be driven by, maybe, outsized gains in pricing or unexpected benefits from FX. So I think that 39% represents a pretty balanced view of our remainder – or of our full year.

Operator

And our next question comes from Robert Ottenstein with Evercore ISI.

Robert Ottenstein

Great. Just wanted to get a little bit better feel for kind of the underlying consumer demand. It's a tricky quarter to do that given some of the comps. And I was just wondering, perhaps you could give your best guess of the impact of weather? We are thinking it could be maybe 100, 200 basis points. Is that too high? And also – we're also hearing that you got quite a nice amount of incremental shelf space in the quarter, finally. Can you talk about that in terms of if that's right? Roughly the kind of timing of that? And any way to quantify it?

David Klein

Yes. I'll take a shot at it and then Bill can fill in the hole. So I think from a consumer demand perspective, we've seen this volatility over the past few years. We're – we had a very strong April, as you see in our results. And I think there is clearly a large effect from weather across the country, in particular in markets where we over-index. I can't really comment on the – on your range. Our numbers wouldn't get us to that level of detail across the entire industry, but we – the biggest competition – the biggest change in consumer demand in the market that we've seen has been the result of the acceleration of seltzers. It hasn't really been anything outside of weather and the result of other factors, say, affecting our portfolio of brands.

William Newlands

The only thing I would add to that, David, is – and we have touched on this a bit before, is that we are overlapping a very strong growth profile from last year in the same quarter with both Premier and Familiar. So to show the kind of overall depletion growth that we had in the quarter of just under 7%, we're quite pleased by. Anytime you have 2 major overlaps, and they were both very successful, and as you can see, Premier continues to be very successful overlapping the introduction, you will have some impact on your business. With that said, with almost 7% growth in the quarter, we're quite pleased with how the year is setting up.

David Klein

And just one other point, Robert. You mentioned a growing shelf space, and you know that that's an important component that our sales team is laser focused on. We've also seen, in particular, Corona Premier's 12-week base volume velocity increase by almost 25%. So we're seeing some really good signs in the marketplace as it relates to our brands.

Operator

And our next question comes from Kevin Grundy with Jefferies.

Kevin Grundy

Questions for David. Housekeeping on the guidance and then one on return on capital. So quickly on the EPS guidance, despite the strong margin performance, it sounds like the upward revision to your EPS outlook is entirely due to the timing of the wine divestiture. If you could just confirm that? And then with respect to the return on capital, you're maintaining the prior guidance of $4.5 billion in dividends and repurchases over the next 2 years, but that was prior to the more favorable terms of the Canopy warrants as part of the Acreage transaction. Maybe you can just comment on the greater flexibility that you have to potentially exceed that guidance?

David Klein

Yes. Thanks, Kevin. So yes, our guidance revision really reflects one additional quarter of the brands that are to be sold, offset by an increase in interest expense because we won't be receiving the cash from the sale in the same timeframe as we had anticipated, as well as because our – the transaction closes later in the year, our ability to get to the high end of that $35 million to $55 million stranded cost takeout range is significantly hindered, which is why we said we're more likely to be at $35 million for the year. But for clarity, still on track to hit $130 million total stranded cost takeout. So the guidance change was really solely focused on the wine and spirits divestiture. As I said, we remain of a belief that we will land the year at 39% operating margins in our beer business.

And in terms of cash returns, Kevin, yes, we're really happy with the incremental flexibility that we get from the revisions to the warrants, and we're just continuing to focus on the

$4.5 billion of return to shareholders. I guess that we want to, as quickly as possible, return $4.5 billion, and then we'll decide what we do after that. But again, I – we simply remain focused on getting as much as we can out of our Canopy investment and returning cash to our shareholders.

Operator

And our next question comes from Bryan Spillane of Bank of America.

Bryan Spillane

I wanted to follow up on the Focus Brands within wine and spirits. And I guess there's some more advertising and marketing that you mentioned in response to Nik's question earlier. Can you talk about maybe just over – in the next year or 2, kind of a longer time-frame, are there like distribution opportunities or merchandising opportunities that like aren't optimized today that might give you kind of a runway of growth in those brands that are maybe similar to what you saw in beer over the last couple of years?

William Newlands

Sure, you bet. We are doing a lot of analytical work around what is the best way to present our brands to the public. As an example, much like we have done in beer on space assessment, we're doing the same kind of space assessment work in our wine business as to whether or not more facings are better than something else, as an example. So we do believe that there are – there is interesting and significant upside for that set of brands. They – first of all, they are growing brands, they participate in growing categories and we're going to support those and – many of them with consumer advertising at the same time while we are increasing our analytical capability to leverage things like you note, which is where do we focus our incremental time and attention of our distributors and our sales organization so that they maximize the potential for those brands.

So the short answer is, yes. All of those things are being done and that should give us significant upside opportunity within our – the brands that are in the power sector of our business.

Operator

And our next question comes from Kaumil Gajrawala with Crédit Suisse.

Kaumil Gajrawala

First of all, just a quick one. How much of your 6.6% depletions came from your new products collectively? And then the second question, on the wine deal, is that structured as an all or none? Or are you able to carve out certain brands and effectively you have to keep them if it ends up going that route? And the reason I'll ask is, if you look at the market shares at certain price points, turns out, they can be quite high. And so as we go through this kind of second request and information process, I'm curious if you have to sell the whole thing or if you have the option to sell pieces of it or not.

William Newlands

Go ahead. You want to start?

David Klein

Yes, so Kaumil, I'll start on that one. Look, we remain committed to the transaction that we've agreed to with Gallo. We're working our way through the FTC process. And we expect that we'll reach a successful conclusion. We've also stated for clarity that, while we've extended our guidance through the end of Q2, we want to be clear that, as stated in the 8-K when we announced the additional work that we needed to do with the FTC, that we would close – we expected the transaction to close in the second half of the year. So we'll provide a little more clarity when we – as we get closer to a final resolution.

William Newlands

And as to your – the piece of your question about the depletion growth, obviously, with

17% growth in Modelo Especial and the sheer size of that business, that was actually the single-biggest driver of our depletion growth profile, coupled with double-digit growth in both Corona Premier and Pacifico. So – and at this point, we view Corona Premier as part of the franchise. We don't necessarily view that as a "new product" at this point. Obviously, Refresca had some benefit during the quarter, but it was relatively minimal compared to the sheer growth that existed on those mega brands of Modelo and the Corona Premier/Pacifico groups.

Operator

And our next question comes from Amit Sharma with BMO Capital Markets.

Amit Sharma

Bill, can you talk about your on-premise trends for the beer business? I mean lots of us focus on the IRI data and that data showed your depletion's maybe a little bit weaker than where you came out to be. Is that the run rate going forward? How should we think about that? And then on innovation, the question is, as you focus on the seltzer side of the business, do you believe you have the brand extensions already in the marketplace to go into that category? Or would you like to extend one of your brands as you think about the seltzer category going forward?

William Newlands

Sure, let me start with your question about on-premise. Our on-premise business we see as being up mid-single digits for our overall beer portfolio compared to an industry that's probably off low single digits. So we certainly are outperforming, and as I think I noted in my original remarks, we're seeing an excellent uptick of 20-plus-percent in Modelo draft as an example, which obviously occurs entirely through the on-premise arena. Our focus, and admittedly, as I've said, we are watching the seltzer category very carefully. But I will also say this: Our Refresca business is where we are focusing our attention this year. We think it's critically important when you introduce a new product, a new brand, that you put the intensity of focus on that to get that into the mouths of consumers who are interested. And as I said earlier, as good as they are, getting it into their mouths is a critically important element because they are just delicious. So our focus and attention is entirely around Refresca for this season. But as I said earlier, we will continue to explore all options where we can profitably participate in all of the areas of the business where we think it makes sense for us to do so.

Operator

And our next question comes from Andrea Teixeira with JPMorgan.

Andrea Teixeira

Bill, David and Patty. I just wanted to go back to the comment on the Corona family [lead in] the quarter and the one less day, and the Corona family reaccelerating in the most recent read from a depletion standpoint. I appreciate that comment, but removing the noise from the inventories, the one less day, if you think of the final consumer demand, all channels, including the commentary that you gave on the on-premise, do you think the family can go back to that sweet spot and reaccelerate from flat to low single and – or even mid-single digits from a consumer takeaway standpoint? I know you're comping the plus 8% that you had in the last year, from the plus 4% to the plus 8%. But just to give us some perspective of the final demand and how we can put everything together, all channels.

William Newlands

Yes, we expect that the Corona family is going to have a very solid year with growth across the family. And again, that would include the entire family. That would be in Corona Extra, that would include Premier, Familiar, et cetera. So we are continuing to expect that, that business will perform well. As you know, our advertising has been increased against the

Corona franchise for this year, while many others actually are doing the opposite. So our share of voice within the beer category will be up during this summer selling season, and we are very optimistic that Corona is going to be an important part of our growth profile, acknowledging that we are 30 years and counting on our double-digit growth with Modelo. And we're off to an amazing start this year.

Operator

And our next question comes from Tim Ramey with Pivotal Research Group.

Timothy Ramey

Maybe a quick one and then a different one. The – any early thoughts on CapEx for 2021? And the wine-in-cans initiative is really interesting. It's been a super-hot growth category. Any expectations on what that might look like?

David Klein

Yes. So I'll hit the CapEx question. Yes, if we look at our CapEx over a 3-year horizon, so FY '20, '21 and '22, we expect that we'll be in that $700 million to $900 million range, and we're headed toward that. And that's inclusive of $200 million to $400 million of kind of maintenance CapEx within our business. So I think even though this year's guidance is $800 million to $900 million total CapEx, we're just going to be in that range for the next couple of years.

William Newlands

And relative to the question around wine in a can. As I commented in my previous remarks, our Crafters Union brand, which we are very excited about, it was part of our tie-in with the NFL, and we think it's a great format. We're also looking at the idea of other can opportunities. I'll give you an example. Kim Crawford, we're looking at single-serve Kim Crawford in a can as well. It is a great package for on-the-go and for certainly, summer events. And it seems like the consumer – based on our research, the consumers are comfortable with a can format for wine. And therefore, we will participate with the brands that we feel are appropriate and where there is going to be real consumer demand within our portfolio.

Operator

And our next question comes from Steve Powers with Deutsche Bank.

Stephen Robert Powers

A follow-up on your guidance. I guess this question is for David. I understand the puts and takes that you ran through specific to the year and the quarter. But just stepping back, at the risk of getting lost in the numbers, if I take what you've said at the midpoint, so beer profit's up 8% off the '19 base; wine profit's down, say, 27.5%; $430 million for interest expense; and then I add $30 million or so for Opus; take away $200 million or so for corporate costs; and tax effect about 17%. But the math that I'm running through just seems to point to something closer to like $9.20 in EPS, $9.20, so well above your current range. So just – am I missing something either in the math or in my logic? Or just can you bridge that gap for me?

David Klein

Yes. I think it comes back to the things I pointed out earlier, Steve, which is really that we take our previous guidance, we add 1 quarter of wine EBIT for the brands that are going to be sold, and there are a couple of things to consider with that. First of all, those brands – and we've put it in our earnings release, their performance last year, those brands are declining. There are stranded costs that we won't be able to take out because we've – we used to have 9 months to take cost out of the business, we'll now have 6 months to take cost out of the business, so the incremental – and we have the incremental interest expense on that. So I think when you factor all of those in, our guidance range makes sense. Maybe one other thing to think through is that if you look at last year's numbers, I think we were in the maybe $20-ish million dollars of NCI. This year, the NCI number is going to be in the $30 million to $40 million range.

Operator

And our next question comes from Sean King with UBS.

Sean King

I apologize if I missed this one, but are you holding to your full year expectations for Premier growth? I know that – with tracked channels decelerating somewhat but – or is this more sort of offset by the accelerating strength in Modelo Especial?

William Newlands

The answer – I'm not sure if it's yes or no. The answer is we're expecting that it will be the previously expected growth profile. We're very pleased with the start that Premier's off to. And as David alluded to a little bit before, we are seeing accelerating velocities against the Premier franchise. So yes, we are comfortable with where we expect that to go.

Operator

And our next question comes from Laurent Grandet with Guggenheim.

Laurent Grandet

Two quick questions. So one on the wine and spirit guidance. So in the previous communication, after the 4Q, you guided wine and spirit organic sales growth between low single digit and mid-single digit, and high single-digit organic operating income growth. So you're not providing anymore – any guidance this quarter. So how should we read this? And my second question is about Refresca. I mean I know it's still very early on, but could you share any feedback you're receiving from wholesaler, retailers and maybe, I mean, the first trials with consumers? So that would be very helpful.

David Klein

Yes, so what you're referring to, I think, is an organic sort of guidance for wine and spirits. And so we would expect that to be flat to slightly down now, both top line and bottom line, based upon the incremental quarter.

William Newlands

And relative to your question on Refresca, it's early days and it's always dangerous to make too many projections on 30 days' worth of selling. With that said, we are very pleased with where our ACV distribution has gotten to after the first month, and we've noticed that the variety pack has been particularly successful in the early days. Now whether or not that continues, I think, remains to be seen. It could very well be consumer sampling and deciding which of those they happen to prefer. But certainly, the early response in the variety pack has been – has exceeded our expectations.

Operator

And our next question comes from Bill Chappell with SunTrust.

William Chappell

Just want to go back to Woodbridge and just trying to understand with a sub-$10 brand, which is still part of the portfolio, and your kind of thoughts of these – the power wine and spirits brands growing at a much faster rate, both next year and going forward. Just trying to couple that with what you've seen in the category for that kind of price points and with the competition in up years and down years. And how confident – I mean, Woodbridge doesn't pull that growth down? Or that it can actually contribute as part of that?

David Klein

Yes. So we've said in the past that when you look at our portfolio, Woodbridge is required for us to, we feel, retain appropriate critical mass in our production facilities and with the – and to retain cloud with retailers. And as a result, we need it in our portfolio, understanding that just the category it plays in, even if it continues to grow share in its category, it will be a drag on the total portfolio. And it's about – Woodbridge represents about 1/3 of the remaining business kind of post-sale. But we think this is a very important brand for our portfolio, and Jim Sabia and Robert Hanson are very focused on driving this brand's growth and as evidenced by the new spots that we're seeing come onto TV over the last week, because we need this brand to be healthy, and we think that we can get some out-sized share growth in its category and, at the same time, be able to give ourselves a little bit of pricing power with the brand. So we see a lot of upside to Woodbridge and we're pretty excited about having it as part of our power brand portfolio.

William Newlands

And Bill, the other thing that I would surely add is, keep in mind, the 1.5 liter, which is the larger size, no pun intended, it's the larger size within the portfolio, sells for $12.99. So it gets into a plus $10 price point when the consumer is pulling out their wallet to pay for our brands. So I echo what David said, is Woodbridge has done an excellent job of outperforming the category in which it competes. And with the additional support and investment that we're going to make against it. We expect that, that will continue and it'll be an important piece of our RemainCo as we go forward.

Operator

And I'm not showing any further questions at this time. I'll now like to turn the call back over to Bill Newlands for closing remarks.

William Newlands

Thanks very much, Daniel. So thank you all for joining our call today. The excellent start to fiscal '20 has nicely positioned our business for another very successful year. The summer selling season is now in full swing, and our team plans to capitalize on the momentum we have underway as we are well positioned with outstanding advertising and marketing initiatives across our entire portfolio. And as July 4th holiday is just around the corner, I hope your responsible celebrations with family and friends will include our fantastic beer, wine and spirit products. So thanks to you, again, everyone for joining the call, and have a great summer.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program and you may all disconnect. Everyone, have a wonderful day.