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Presentation

Nadine Sarwat

Hello, everybody. Good afternoon. Thank you for joining us. So we are delighted to have Constellation Brands here today, and I have Bill Newlands, President and CEO of Constellation here with us. We have a lot to discuss, and I'm sure a lot of few questions. So as a reminder, please use the Pigeonhole link, if you'd like to submit yours.

Question and Answer

Nadine Sarwat

So with that, let's get started on all the questions I'd like to ask though but first, could you talk us through, for those in the room less familiar with Constellation Brands, what are the strategic priorities for you at the moment?

William Newlands

Hi. Nadine, I'd say we have 3 things that are sort of critically important for people to know about our business. First of all, we got a great portfolio. Our beer business in the most recent 12 weeks was up over 11%. Our wine – high-end wine business was up over 3.5%. And in the last 10 years, we have had several times, 4 out of the last 6, including last year, where we were the #1 CPG growth company. So – and that all really revolves around and comes out of our strategic priorities.

We've said we want to be great at building brands.

We've said we want to do innovation. It's based on consumer insights. We said that we want to be good stewards of capital and we want to do good work while we do good

business. So let me touch on each of those just a little. Our beer business has been phenomenal led by Modelo. Modelo is now the #1 over the last 4 weeks, the #1 dollar business in the beer business. We thought that would take a little longer. We've been very fortunate that, that's gone a little quicker than we had anticipated. But what a great position to be in on the beer side.

Corona Extra continues to be a growth vehicle, up over 3% last year was the #3 share gainer last year – last fiscal year. Pacifico, again, double-digit growth driver. It's doing great and Chelada has been just a spectacular piece. Our wine and spirits business, we've done a lot of work to reshape that whole thing, getting out of the lower end of the business, putting a lot more emphasis on the higher end where you see better growth profile, you see better margin profile. We've also done a lot at a corporate level. When you think about what we've said about capital allocation, we've been very specific and Garth and I have been very specific about what our expectations were over the last 5 years.

We're going to invest in the growth of our beer business. We're going to be investment grade. We're going to return money to shareholders. We did over \$5 billion return to shareholders in exactly the time frame that we said we would do it. And we'll do some minor M&A, most likely just bolt-on. We've also done a fair amount of – on our ESG efforts at a corporate level. We made commitments about water. Water is a very important element to us. And we have already met the water commitment that we made just a year ago, well ahead of what the schedule was.

Our DE&I work has been very important to us. In fact, we have 2 pieces of our venture arm. One is focused on businesses that are female-owned or run, another minority-owned or run. And that's been a very strong play in that area. And of course, a lot of change in our governance profile recently with the collapse of the AB shares, I'm sure we'll probably touch on that a bit.

But the third point that I'd make and it might be as important as anything I've set up to this point, which is we're as confident today in the future of this business being able to continue to say what I just said, for the next several years as we were 5 years ago when I got in the seat.

Nadine Sarwat

Well, so many things in your answer that I'd like to touch on, but I'd like to split our discussion for the beer business between the short term and the long term. So you alluded to that in your answer here. The short-term Constellation Brands has had a very volatile couple of months for beer as has the rest of the beer industry more recently. So could you comment in a little bit more detail how your brands are performing today?

William Newlands

Sure. Modelo in particular, I pointed out that we're now the #1 beer by dollar in the U.S. Modelo has just been a phenomenal success. It's up double digit. The most recent time is up over 11%. Corona Extra continues to be a growth vehicle for us, that's up in the 3.5 point range, as I mentioned. Pacifico. Pacifico grew 30% last year. It's still growing in the high 20s. That really looks like a young Modelo, I always say, it feels a lot like the development of Modelo from sort of 15 years ago. So we have a lot of excitement there.

And the Chelada business is just ridiculous. That started out as one 24-ounce SKU about 12 years ago, and we'll do more than 20 million cases of Chelada this year, various sizes, exposing ourselves to more consumers, more occasions. So that is a business is all going very well. And then, of course, you talk about some of the new things we're doing. We've just introduced Oro nationally. We did that a test market last year, and we're very excited about the early days of that, acknowledging that it's early days.

So our business is performing very well. And today is the last day of our quarter. So I obviously have to be mildly careful about what I say. But let's just say we're accelerating

out of the quarter, as you probably – for those of you who follow IRI data, you probably have seen that our business is accelerating.

Nadine Sarwat

And the 11% you just gave for Modelo at 3.5 per Corona, what time period – was that over?

William Newlands

That's 12 weeks.

Nadine Sarwat

For the latest 12 weeks?

William Newlands

The latest 12 weeks and the 4 weeks is even better than that.

Nadine Sarwat

All right. I think in the last call, you had called out some challenges with California and the very unseasonable weather there, but also California being a very saturated market. And I think you called out Texas and Florida as 2 other opportunities. So what role do you expect California to play in the growth of Modelo or your entire portfolio? And by extension, how much more room for growth, there's a brand like Modelo have in the U.S.?

William Newlands

Sure. So California is going to still be important to us. If you look at it, our share of space and our share of shelf have both gone up in low single digits. This particular quarter, we saw a 9% increase in our draft business in the state of California. It's an area where we still have a lot of upside. But here's what excites me, Nadine, about the Modelo franchise.

Back in February, for those of you who are listening, you might have remembered either

Garth or I said, we only have 2 states in the United States where we have a 10% or greater share from Modelo, even though it's the #1 beer in the country by dollars. Today, that's 4. We're up to 4 states. But when you think about it, it's kind of amazing that we have that kind of strength and spread and the opportunities that still exist. Our household penetration on Modelo isn't even up to the same level that you have for Corona Extra.

So there's just so many opportunities to continue to extend that franchise. As you know, we're a big believer in media. We have the loudest share of voice, the biggest share of voice in the industry. And we've only really started to advertise to the broader community, our Hispanic base for Modelo has been very important to us, but we've just started to advertise the broader community over the last 4 years. So in many ways, we just think we're scratching the surface of where Modelo can go, even though it's as good as it is.

Nadine Sarwat

And can you dive into that share of voice? I think it's something people often ask, how do you measure that, especially when there are some brands out there that by volume standpoints might be bigger. So how to – help us understand that.

William Newlands

So you can get your any ad agency that's worth or solve that you have can tell you that answer. What's the measured media on how much spend occurs by any particular brand across virtually any consumer product category. But our algorithm has been very clear over time. We're very disciplined about where our pricing structure is, and we reinvest in our brands, and I think it's paid off for us.

When you think about the fighting spirit, it's one of the great advertising campaigns of all time. And while your fighting spirit might be somewhat different than the mine just for whatever we're into, it can apply to you, it can apply to me. And the range of people that can understand and be excited about the fighting spirit is pretty tough to do. Nor-

mally, any ad campaign has a very narrow focus, I think that one just the reach that, that campaign has been often turns good.

Nadine Sarwat

And sticking with the short term, last 2 months, you've had Modelo Oro out. I don't know how many people here have been able to taste that. So a couple of questions on that. Who exactly is the incremental consumer you're targeting with that?

William Newlands

Well, as you might expect, we introduced that product for a couple of reasons. One is we have done a fair amount of research that said our core Hispanic male consumer was not satisfied with the light beers that were available to them. And obviously, we have a lot of strength of the franchise in the Hispanic community. So we thought that was going to be an obvious alternative. And generally speaking, men also fit into that arena as well.

As you probably know, we tested it in 3 test markets last year and made sure we had all the variables that we wanted to have ready to go. Again, it's early days. We've really been out in the market 6 weeks, 8 weeks. We've surpassed the 50 percentile in terms of ACV and we're really excited. I think it's early days, knock on something here. But the early days, it's looking very positive.

Nadine Sarwat

And notwithstanding the challenges or I should say, unprecedented share shifts that we've seen in light beer...

William Newlands

It's a lovely way to put that in.

Nadine Sarwat

If I put that to one side, sometimes I will get asked what is the role of light beer in America

today when we consider the declines that, that category has had after the 25 years of share growth that it had from 1980 onwards. Now you're clearly stepping into this light beer category. So what gives you conviction that there would still room to play in this category and that it could still be an important part of American consumers purchasing decisions for beer?

William Newlands

I think you can look at it in a couple of ways. I think one of those is while everything you just said is true, it's still a huge category. It is a massive category. And therefore, there is plenty of share and plenty of trade-up opportunity for brands like ours that are part of a premiumization trend. So it's still a big pool, even though the pool is less than what it once was. So I think that's one.

Two, if you look at consumer behavior generally, betterment is an area that's critically important today that's not unique to the alcohol beverage business, it's more of a truism, if you will. That betterment is important. And so a lot of consumers will continue to look for things that are in that ZIP code. We just introduced Corona nonalcoholic. It fits a particular point of view or someone who wants to not drink and drive or you can think of a lot of areas why that's important. It fits into that betterment or it does the same thing. It fits into a bit of that betterment environment that people are looking for, admittedly in a very big pool even if the pool is a little bit smaller than it once was.

Nadine Sarwat

And you shared in your answer earlier the importance of what that core Hispanic male drinker wanted. What about the female drinker? That's obviously been something that has led to beer's overall share loss to spirits. So where does this fall in for Oro, but also for your beer portfolio as whole?

William Newlands

Well, again, that's a great question. I think one of the things, if you think historically of how many beer brands were advertised, I'd say, it wasn't female-conducive.

Nadine Sarwat

Very pleasant.

William Newlands

Thank you. But I'd say that is not the approach that we have taken relative to our advertising whether it be Corona, which is a beach state of mind or whether it be Modelo with the fighting spirit. We have a very broad-based effort in our appeal. And I think that's important so that we're not trying to sort of draw lines on whether your consumer base is male or female.

Nadine Sarwat

Now back to Oro, key question I get is how much is it going to cannibalize in there, so can you answer that?

William Newlands

Sure. We were very pleased in the test markets that the cannibalization was – well, let's flip the other way because that's why I always say it. The incrementality was over 60%. Again, early days in the full launch. It appears if anything, it's a little bit even more incremental than that. So – which most consumer products, the view is if you can get a 1/3 to 40% incrementality, you're doing pretty well. So we're pretty excited that this is reaching a different consumer occasion, even if that consumer was already in our franchise.

Nadine Sarwat

And if we were having this conversation 2 months ago, someone would have said that biggest competitor would have been Mich Ultra. That landscape has changed over the last 2 months. Does that affect your belief of trial for Oro or your ability to draw new

consumers to the brand?

William Newlands

No, I don't think so. And by then, I mean, because the overarching sort of characteristics that people were looking for a betterment is still there. Yes, there's been some unique elements, as you point out in recent times. But I think Oro still fits in a really good spot. If you've looked at either the core packaging or the secondary packaging, we're calling this the gold standard of light beer. It's a great product in the can almost set in the bottle. We're only putting it in cans at the moment. It really is a terrific product, which is part of what we think is critically important.

Our first protocol is the product has to be superb. And we think the response to the liquid has been outstanding, both in our initial testing in our test markets so far in the launch.

Nadine Sarwat

And then what about supply challenges? Have you been able to meet demand? Is demand outstripping your supply? What's the situation there?

William Newlands

Well, as Garth probably mentioned more than one time in recent calls, one of the things that we've done is we've expanded our production footprint is we didn't have redundancy. And it was – frankly, it was a bit of a problem because it didn't give us the kind of flexibility that we would have liked to have seen. So as we built out our production footprint, part of what we've done is to create some redundancy in the system, so that in the event that Oro does better than we expected, we can address that need as it presents itself. So we're in a much better position today to meet demand or if the demand shifts to be able to shift with it rather than having sort of a set plan for the year and good luck if anything changes.

Nadine Sarwat

And talking on supply and ability to meet demand, if we expand that question to Constellation as a whole for beer, we've just had Memorial Day, we're heading into the peak summer months, how is that shaping up for you?

William Newlands

Very good. We had a great Cinco. One of the beauties of having our brands be critically important during Cinco is it gets you on the floor, it gets you in front of the consumer. And what tends to happen is you don't lose that space. You end up flowing your way into Memorial Day, and it certainly looks like Memorial Day was very positive. We're still getting the final roll up of that, but it certainly looked like that was very good for us.

And finally, the weather was lovely. I don't know where you're all from, but the weather was lovely in most of the country. And the correlation between beer consumption and weather is so ridiculously tight, it's beyond belief.

Nadine Sarwat

So you've mentioned shelf space, and I know we were discussing this earlier. We have the smaller shelf resets in the fall, the big shelf resets in the spring. Usually, we don't have as many share shifts as we've had over the last 2 months to talk about. So could you share your thoughts on how you expect shelf space to change, if at all? And how does that impact Constellation?

William Newlands

As the biggest growth driver in the beer category, we continue to need and expect greater shelf position than what we've had. I think we - as you point out, now a couple of times, we're in a strange environment right at the moment where there's quite a bit of shift as to what consumers are doing and brands and so forth. I think that's going to really open up an interesting window in the back half this year when shelf sets are done because

arguably our brands continually deserve a lot more shelf position because of the velocities that they have.

Our portfolio is extremely efficient. It's not very wide, but it's extraordinarily efficient. And therefore, we need more shelf space. I think because – and retailers today, particularly bigger chain retailers, are very sophisticated in terms of what moves, what data is available and so forth.

So as you get to that time frame, I think you could see a much greater shift and what happens at the shelf than what you would normally see in the back half of the year.

Nadine Sarwat

All right. Well, that's definitely to look out for as we go towards that fall. So to wrap up our discussion on the short term of beer, pricing, the big topic for the last year, given input cost. And I know you've previously commented on the pricing algorithm, your normal 1% to 2% modest pricing. And Constellation has consistently been a little bit more cautious than some of the other players in the market. Could you walk us through why that is and how that has informed your decision to take modest pricing this year?

William Newlands

Right. As you know, the last couple of years, we've been a bit ahead of our 1% to 2%. Inflationary pressures have been sort of off the charts versus sort of any kind of normal time frame. So we have been a little ahead of that. However, our philosophy has been 1% to 2%. We do not do any peanut butter pricing. In other words, we don't spread it everywhere at the same amount. So we look at it SKU by SKU, market by market, channel by channel. And look for where there may be opportunities to adjust our pricing. That has worked tremendously well.

Take some price, invest back against the business, talk to your consumer, see the growth

profile that comes out of that, that has been something that's worked very well for us. We also have a philosophy that's really quite simple. It costs you a lot more money if you've lost your consumer to get them back and never having lost them in the first place. So we probably are a bit more judicious. Does that mean we couldn't do something just a bit more in any particular period and have everybody say, "Oh, nice job. You had a great quarter in pricing."

Sure. But that – we have a very clear-cut algorithm of what pricing does and doesn't do for our business and what the elasticity impacts of those things are. And we are very focused on doing what we think is right for the longer run, not for just the next 10 minutes.

Nadine Sarwat

And I think that transitions quite nicely to the concept of what are we seeing for price elasticities and a very common question I think everybody at this conference from a consumer perspective is trying to understand the health of the consumer, where are they from a spending standpoint, while it's being squeezed. So what are you seeing? Obviously, your portfolio SKU super premium. Are you seeing any meaningful down-trading, changes in consumer behavior in terms of pack sizes? Anything that can give us an insight.

William Newlands

Yes. We're fortunate that we have a very loyal customer base, which always helps in these types of situations. So we have not seen a lot of trading down. What we have seen is some variability in terms of what the consumer buys when they come in. So they may buy more of smaller size, but more often, which often will correlate to how much money do I have in my pocket to spend on this.

Fortunately, many of our consumers view beers a staple. It's part of what they expect to do. And even in an inflationary environment, it's a bit of an affordable luxury. Alcohol has the benefit of that. We're not – we tend to be a bit resistant in a recessionary or an infla-

tionary environment compared to some other categories. But it's certainly something we watch very closely. Again, that's part of our overall algorithm that we run to see where are the elasticities against our business in case we need to make any adjustments along the way.

Nadine Sarwat

I think you've hit the nail on the head. I always say it's a – alcohol's a hybrid product, its standard parts. If many of them are shopping every week, but we have very strong promotional attachments to our brands, and it feels like an indulgence from that perspective.

William Newlands

It is. And I think a big piece of it, Nadine is, do people feel like they're getting the value that they want. I'll use another example. We've been very carefully thinking about how you have pack sizes that hit various price points. Some of the, I'd say, other nonalcoholic beverage companies and I won't call anybody out in particular, have proven to be very good at that. So if you come in and you want to spend \$4 per soda, I've got an option for you. It might be a little less of it. There might be 2 bottles, not 3 or 4, not 6. But there's something that you can get at every price point. I think we've taken on to say, that's a great opportunity to make sure that if the consumer comes in and has a certain amount of dollars that they can allocate to us, that we would have something available to them.

Nadine Sarwat

So let's shift to the long term. So I'm going to refer to my notes here because I don't want to get the numbers wrong. So Modelo has really continued to fight Gravity, a special here. 9.6% shipment growth in 2022 according to Beer Merchant Insights, over 20 consecutive years of growing share in U.S. beer. How would you define the factors behind the brand's long-term growth? It's one thing to have tailwinds in sort of – in the sense of consumer demographics, it's another to continue that over such a long period of time.

William Newlands

Well, we've touched on 2 or 3 and one of which is that consumer demographic. The Hispanic population is growing at roughly 3% a year. That's over half of our consumer demographic. So you do have a tailwind there. I think the liquid, what's in the bottle and the can is phenomenal. The fighting spirit has gone on for a long time, and we've been able to evolve it to different situations and different environments. I think that's all been a positive. And I think it's part of the premiumization trend that you continue to see in lots of categories. And we're fortunate that we have a big pool under us that's interested in trading up and Modelo has been a recipient of that along the way.

The thing that excites me is the little point we made very briefly earlier, which is as big as it is and is growing as it has been, the opportunity remains, and that's – given it's only got a [tenth] share or more in 4 states in the country, which I must say, blows me away every time I think about it. Because it just shows that how much opportunities still exist for that brand, even though it's done all the things that you just said.

Nadine Sarwat

I think that premiumization point is very powerful. I often get asked the question, why is it that people in the beer industry call light beer premium lights. I thought these brands were mainstream. And the answer is in 1980, they were a premium, and that shows the extent to which premiumization is such a powerful driver of our consumption patterns and alcohol, and to your point, Modelo fits very nicely in that.

William Newlands

But I think it's also – we often talk about megatrends. We love to look at what trends are going on elsewhere and sort of consumer businesses because it often gives you a perspective on what you can expect to see on your own. So – and there are certain things that are sort of mega-trendy. People want more flavor, people want betterment, people

like convenience. You see that, that's not unique to us. But part of those things, how do you apply that learning into what we do, I think, is an important piece of where we've had some success.

Nadine Sarwat

You've done numerous line extensions, Corona, Modelo to various degrees of success, I think you were reflecting on Premier earlier today as well. Now can you walk us through what is the process you go through when deciding what to line extend and when? And how do you balance out trading off your brand recognition and brand equity with potential cannibalization or diluting the mother brand?

William Newlands

Well, I think it starts with a couple of things. One is anything you do needs to be part or consistent with the brand essence. So I'll use a silly example. We never put an IPA in Modelo. It just doesn't fit. It's not part of the brand essence nor would you expect to see that. And the consumer is likely to look at that and say, what is that about? I don't follow that. So whatever you do, I think needs to be done.

Second, we do a lot of consumer testing. What need does it fill, for whom, so that we're not - we're anti-throwing it against the wall to see what sticks. We will only do something if we think it fills a niche, it opens up some white spaces that we have. It fills a different consumer, either a consumer or a consumer need than what we've done up to that point. And again, it goes back to it's got to fit within the essence of what the brand is all about. So all of those things go into how we think about what we might innovate against.

I could use Chelada. Chelada is a traditional Mexican liquid that we felt fit perfectly with Modelo, and it was before my time. But 12 years ago, that was viewed as a natural extension of what Modelo could bring to the table. And in fact, it's worked tremendously. And the rest is history as the same goes on how well a Chelada business has gone. We

are doing a test market right now on Aguas Frescas in Nevada, and that's off to a really good start. Again, it's a product and a liquid that is native to Mexico that we felt would be very appropriate as an extension into the Modelo franchise.

So all of those things are done with, I'd say, all of those factors in mind, and then almost always, once in a while we don't, almost always, we do a test market, so that we learn. You mentioned Premier. One of the things that we learned about Premier early on was I don't know that we did the best job that we could have defining that it was a light beer. We now on Oro on both the primary and the secondary packaging, it says the gold standard of light beer. So there shouldn't be any debate about exactly what someone's getting when they buy at Canaveral. But that was a bit of a learning experience. I don't know that we did as good a job of explaining that when we initially introduced Premier as we could have, as an example.

Nadine Sarwat

Makes sense. Now I spoke a lot about topline shifting to margins. So I know in the past, you've mentioned a 39% to 40% [vary] EBIT margin as your medium-term target. Now over the past few years, we've had unprecedented input cost pressures. But should investors still be taking that 39% to 40% as a medium-term target when they're thinking about the business over that period?

William Newlands

Well, we haven't changed our algorithm of what we expect to do over time at all. What we have said, and Garth said it many times, is we had everything you just said. We had double-digit inflation 2 years ago, a year ago. This year, it's probably going to be higher single digit. Most of our planning historically has been in the low to mid-single-digit inflationary environment. We're bringing capacity online. It increases the depreciation schedule versus what we had historically had.

While all of that's going on, we still delivered 38% margin last year, and we expect to do the same this year. I think that's pretty good given the unique scenarios that we've had. Those are still best-of-class margins even though they're a little less than our long-range algorithm. We don't – if we get back to more normalcy, we would expect to be in our longer-term algorithm.

Nadine Sarwat

And then can you provide an update with the brewery at Veracruz, when can we expect it to come online? And then how are you anticipating shipping that beer from the new location to the U.S.?

William Newlands

Sure. Veracruz is on schedule. We've broken ground, and we're very pleased with the work that's been done at all levels of the government in Mexico at the federal level, state and local governments have been very supportive of that operation. We expect that to come out in fiscal '26. We will likely – we're testing some of what I'm about to say, about how best to ship from there. There's the Port of Veracruz that's close by one of the reasons that was selected, a, it had tremendous water supply that was high quality. It had great labor availability, high-quality labor characteristics, and I had the shipping port of Veracruz.

Now it might be slightly different. As it turns out most of our other operations go by rail, primarily. This may go by ship out of the Port of Veracruz into the sort of the eastern seaboard or south seaboard of the United States. So that may be somewhat different. We're actually going to do some of that testing soon to sort of see if that – how that's going to work and what the logistics are around that even though we're still a couple of years away from actually shipping it, we will do some testing around that.

And that will probably be a highly efficient plant. We'll probably have a smaller number of

SKUs that we do out of that because there may be some minor additional freight involved compared to what we have with the other 2 facilities just because of the geography.

Nadine Sarwat

Before we move on to wine and spirit, just 1 question that we had here probably on the back of our discussion on the health of the consumer and certain consumers perhaps going for smaller pack sizes. Someone asked, could you comment on the profitability profile of smaller pack sizes?

William Newlands

Well, interestingly enough, if you think about single serves, which is a very big item in a convenience environment. The convenience environment is our single biggest channel. Our share in that channel is the biggest share that we have. And those single serves are actually very, very profitable. Obviously, when you have 38% to 39% margin structure, everything is pretty darn profitable. But certainly, those single serves as an example, can be a very profitable item.

Nadine Sarwat

So shifting to wine and spirits, you've obviously reshaped the wine portfolio quite a bit over the last few years with a focus on shifting towards more of the high end in line with the premiumization trend that you just highlighted. So could you comment on what you view as the strategic role of that segment within Constellation Brands today?

William Newlands

It's obviously underwrite. It's changed quite a bit. Four years ago, 34% of our business was at the high end or what we've talked about is the high end of the wine category. Today, it's 63%. So the thing has been resorted quite a bit versus where we were primarily because that's where the growth is. The margin structure is better. There's about 12 reasons why that's a good thing to do. I think the wine business does a number of things.

It – well, for a while, we talked as a company about total beverage alcohol, I think largely we were talking to ourselves because even though the consumer does that, in some respect, no one in their right mind ever thinks that way. That was an idea that we had for ourselves. Now that doesn't mean that having the wine business and the spirit business doesn't allow us to participate in more consumer occasions. And that's a piece of what it does is it allows you to win more of the occasions where an individual is choosing to have an alcohol beverage, it allows us to play in more of those occasions than it would be if we were more narrow in our portfolio.

Nadine Sarwat

Okay. And then we have someone here asking on...

William Newlands

Is it Garth, he is asking some questions. Cut him off.

Nadine Sarwat

It's anonymous.

William Newlands

That's all good. All right.

Nadine Sarwat

So on the wine and spirits portfolio, someone is asking, would you consider divesting it?

William Newlands

Well, here's what I'd say. We challenge ourselves about our business all the time. That's why we've divested a number of our lower-end wine businesses. There's no sacred cows in our business. There might have been a one point in time, there are no longer. I mean we've even sold the place where the business was started 75 years ago in one of our more recent transactions. So there's no sacred cows as to how we look at our business. We ex-

pect all of our businesses to perform, to win in the marketplace and to bring shareholder value, and we challenge ourselves across the board on that every day.

Nadine Sarwat

And so looking beyond the premiumization, the positive mix aspect of reshaping that portfolio, how do you view the drivers of growth for that segment?

William Newlands

The growth has largely been driven by things that we bought over the last several years. When you think about Kim Crawford. Well, that's one of the earlier ones, Meiomi, the Prisoner, High West, Casa Noble in our spirit business has been terrific over the last several years, even though it's relatively small. All of those brands play in areas that are up the price ladder and therefore, improved. It have also allowed us to expand.

So let's use Kim Crawford. We've added Kim Crawford to Illuminate, which is a lower-calorie product. That fits into the betterment thing that we were talking about just a few minutes ago. That has been a tremendous success, and that – those couple of SKUs that fit in that betterment area are 2 of the strongest selling in that area. And we only now has Bright also, same thing, a lower calorie, lower alcohol content — ***indiscernible*** —

So we've been able to broaden the shoulders of some of those critical brands. The Prisoner is 4x what it was when we bought it. So I think that's performed very, very well for us. So we're very pleased with the weighting of our portfolio. We still have a bit of a drag at the lower end because 1/3 of the volume is still done at lower price points. And that's not an overly healthy subsegment of the wine business.

Nadine Sarwat

Okay. And then on the spirits business, if I cast my mind back to the last decade, a few west alcohol more broadly, spirits has been gaining share from a number of factors driving

that. Obviously, you have a spirits capability just as you said, quite small, but doing well. Would you consider playing within spirits in a more meaningful way, given the favorable exposure that, that category has today with consumers?

William Newlands

Well, broadly speaking, I'd say, yes, I think we have started to do that to some degree in a smaller way. We bought High West. High West has had double-digit compounded growth over the last 5 years as is Casa Noble. We started Mi Campo from scratch.

The 2 tequilas last year grew 75% in dollars, some of our venture investments. If you look at the weighting of our venture investments, they're skewed significantly into the spirit side of the arena. One of the early ones, in fact, one of the very first ones we did in the Female Founders program was Austin cocktails, which we've now brought in.

Again, that fits into a bit of that prepared cocktail ready to serve convenience scenario, much that we've talked about and other things. I think that's part of what spirit has done particularly well is they've given that sort of optionality. We've done premade cocktails now with both Mi Campo and with High West. And we – this is a nice problem, I guess, we can barely keep in stock. But because I think those things meet consumer needs and meet some of those overarching consumer needs that we talked about earlier.

Nadine Sarwat

I think earlier in one of your previous answers when you spoke about capital allocation, you said small bolt-ons. Would that be a spirits as a white space that you would consider for small bolt-ons? Or is there other areas that you find interesting?

William Newlands

No, we would consider spirits for small bolt-on. And some of that, of course, has been done through our venture arms, a couple of – we just – Nelson's Green Brier is another

example that initially was part of our venture arm, and we've now brought that into the business as a majority stake.

Nadine Sarwat

All right. So I want to shift to overall this strategy. If I cast my mind back to the last sort of 8 months, one of the big catalysts that happened was the reclassification agreement and also the improvements in governance that came along with that. So can you comment or explain on what ways, if any, your decision-making process as a Constellation have evolved since that reclassification agreement?

William Newlands

I think this was a really important step for our company. First of all, it creates a 1 vote, 1 voice rule, which we didn't have prior, I think that was important. The agreement called for rotation of our lead director. The chair gets voted on every year by the Board of Directors. That's obviously changed, that's no longer birthright. The — *indiscernible* — retired, that was highly beneficial from a cost perspective that helps – is going to help us financially going forward. Our 2 longer serving directors are both retiring this year and won't stand for election.

All of those things, I think, create a much stronger governance profile that, frankly, was what many of our shareholders were looking for and wanted to see out of us. And I think that's only going to get better as time goes forward. We have a very thorough refreshment process that we're undergoing with our Board right now, that analyzes the skill sets that we have on our Board, where can we enhance those skill sets to offer better oversight and guidance for the organization. So I think that whole bundle of things has been and will continue to be very valuable for the future success of the company.

Nadine Sarwat

And this refreshment program that you just spoke about, can you comment on when did

this start? How long do you expect it to last? And someone asking here, can you comment on what are you looking for in terms of numbers that might be replaced? What are those qualities that you think would be helpful?

William Newlands

Well, one of the things we've hired an outside firm to do a skills assessment of the Board, which, frankly, that's not particularly unusual. Most organizations would do just that. We just haven't done it before. So – and this gives us a chance to say, what are the skill sets? Let me give you an example. Versus when I joined the company several years ago, we have a much broader-based Board than what we had back then. We now have 2 individuals who are from Mexico, one of whom was highly involved with the government, have been very, very helpful from us – with us in terms of our interaction with the government of Mexico.

We added the Chief Legal Officer from Colgate. She brings a lot of governance experience. She brings a lot of understanding of consumer products. They do a lot of business in Mexico. We have the CEO of Fortune Brands Home & Security, which I know is now is called something else, but he also worked for 20 years in the alcohol beverage industry. So we've broadened the range of skill sets that we have. We have more active individuals on our Board but that doesn't mean we're still not challenging ourselves about what else can we do.

And as I said, we have hired an outside firm to help us with that assessment, and that's no big secret. It's – I think it's, again, just a good governance thing to do to make sure you have all the right thinking and the right places to make sure you're doing everything you can to win.

Nadine Sarwat

Okay. And then one question here. Can you give us an update on how you're thinking

about the cannabis space today? Obviously, quite a lot has happened with Canopy over the last 2 years. We are seeing increasing states legalized recreationally in the U.S. that were not at the federal level. So if you could just give us an update on how are you viewing that sector today?

William Newlands

Sure. We're trying to view it as little as humanly possible. That has been – that was a horrible investment that we made. And it was – no, do I think that one of these days, cannabis is not going to be big? Of course, I do think it's going to be big at some point in time. But we are focused very clearly on building a strong beer and a strong wine and a strong spirit business. As you know, as soon as Canopy gets through their process of being able to have exchangeable shares, we will do that, which would keep the upside in that investment should Canopy be proved to be a winner in that space. But hopefully, it's been made crystal clear that there's no more investment from Constellation in that particular arena.

Nadine Sarwat

And if I could just maybe push slightly...

William Newlands

That was clear, I think.

Nadine Sarwat

And if I could just push slightly on the question this person asked here, what learnings did you take from that experience on that decision process that happened to step into that cannabis realm, what were the learnings from that?

William Newlands

Well, not to blame anybody else, but that was done before the current management

was in place. But what I would say is this, all joking aside on that topic. There was an assumption that legalization would go way faster than it has. The politics up, everybody wants to get it done. They don't want the other side to get credit. It's been just – well, it's been interesting to watch. We'll be polite. So that – some of those assumptions, I think probably could – the optimism with which that was looked at, at the particular time was probably through a little bit of rose-colored glasses, I would say. And unfortunately, the reality has been something radically different than that.

Nadine Sarwat

Yes. Very difficult to get anything done in the government at the moment.

William Newlands

That would be fair.

Nadine Sarwat

So one of the frequent questions I get from investors regarding Constellation is the concentration both in terms of the geographic exposure to the U.S. and within the exposure to the beer portfolio of Mexican imports. And sometimes that's a concern an investor might raise. So to any investors that are having that concern here today in the room, what would you say to them?

William Newlands

I think I'd point out 2 or 3 things. One is, if you want to be overinvested in a particular market, you'd like that to be the biggest single profit pool in the world. And that's where we are, one. Two, I led some of the opportunities that still exist for our portfolio. And we've touched on some of those today. Everything from ready-to-serves to finding convenience packs to betterments to – the opportunities that are right in our wheelhouse within either right on top of our portfolio or very close to it remains immense. One of the things that we've done aggressively over the last several years is build an innovation ca-

pability to bring outstanding products with outstanding brand recognition around those to the table.

We have a lot of things in the queue that we believe can be very enhancing and interesting in that biggest profit pool in the world. So I would argue that all of those things go together to say, we have a lot of upside and a lot of runway, not only with our existing brands, but with some things that are very close in. Mi Campo is a great example. That didn't exist a few years ago. We did that from scratch. And as I said, our tequila portfolio last year was up 75% in dollars. So we've proven we can do new things and add them into categories that are growth categories.

Nadine Sarwat

All right. And would the 2 minutes that we have left, the question I always like to end on it is what do you think the single most misunderstood or underappreciated thing is about Constellation today?

William Newlands

I think that's great question. I think one of the things that I think is really important is one we just touched on, which is we have a tremendous runway ahead of us. I think it's very easy to say, oh, you had a bad 2 weeks because it rained cats and dogs in California and half the coast is falling in the ocean and missed the big picture that things are going great. We gained share all the time that the ocean was getting more — *indiscernible* — So I think it's important to recognize that we have a lot of runway. Second, as good as we've done, and I think we've done very well.

We challenge ourselves each and every day. There is nobody in our business. That's probably exaggerate. There's very few people in our business that are complacent. We want to win, we expect to win and we play to win every day, but we do it in a good way, I like that thing.

Nadine Sarwat

Fantastic. Well, I think that's a great place to end. Thank you for such a wonderful discussion.

William Newlands

Pleasure.

Nadine Sarwat

Thank you, everybody.

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