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Presentation

Brian Bennett

All right. If we can make our way to our seats, we're ready for our next presentation from Constellation Brands. It's a great pleasure to welcome Constellation Brands CEO, Bill Newlands, back to CAGNY this year. Constellation has been a top tier – has that top-tier track record of growth over the last 10 years and also driving shareholder returns, driven largely by its beer business and also enabled by portfolio edits. Bill, I'll turn it over to here – I'll turn it over to you to catch us up on what's going on at Constellation.

William Newlands

Great. Thanks, Brian. It's great to be back at CAGNY. The last time I was here was in 2019 prior to the start of the pandemic. So it's great to be back live with all of you. Before we start, I'd like to review our forward-looking statements and non-GAAP financial measure disclaimers, which can be found on Pages 2 to 4. And if that isn't enough to put you to sleep, nothing will be, but it was all filed this morning with today's presentation. Reconciliations between the most directly comparable GAAP measures and any non-GAAP financial measures discussed today are included in the slides or otherwise available at our company website at ircbrands.com. Now I believe you have heard from a couple of other beverage companies already, but we are the first from the alcohol beverage industry. So today, I will start with some of our insights into the legal drinking age beverage alcohol consumer and then how that perspective has informed our strategy to consistently deliver growth and value creation.

And I can assure you that despite the skeptical hypotheses that have recently arisen at the Brown Constellation Brands, and you know who you are, our business is performing incredibly well in line with our expectations, including our beer depletions for the fourth quarter. And we continue to believe that, that will be the case well into the future, but more on that shortly. The Constellation Brands were consumer obsessed. And this obsession drives our focus on the beverage alcohol industry on the higher-end segment of the industry and on all 3 of its categories, beer, wine and spirits and the consumer-led trends that are shaping those categories and segments. So why Bevel? While some of you may have seen the headlines, it says Americans are drinking less. We think it's important to look beyond biometric measures and to understand the spending habits of the U.S. beverage alcohol consumer. If you only focus on the headlines, you may assume that the U.S. beverage alcohol market has been contracting. Within the decade between 2010 and 2020, we estimate the market grew at a compound annual rate of around 3%, a level of growth comparable to that of all CPG in that period.

Interestingly, over that period, the U.S. legal drinking age population only grew at a rate of approximately 1%. So even if the growth of beverage alcohol consumption was 1%, there's still a 2% delta that points to something beyond volume. Like many other parts of the CPG sector, consumers have been migrating to more premium offerings. Since my last presentation at this conference, higher-end wine, higher-end spirits and higher-end beer have been significantly outperforming the lower-end segments of those 3 categories. So a large portion of the growth in beverage alcohol has been driven by increased spend as consumers migrate to higher-end products. In the beer and spirits categories, the majority of the spend is already in the higher end and wine is not far behind. While this trend has steadily advanced since 2010, consumer-led premiumization has expanded at a similar rate in recent years. And we believe there is still significant opportunity for further shift from the lower end to the higher end across all 3 categories. So that informs why our portfolio is strategically focused on the higher-end products.

Now why across all 3 categories you might ask? Well, 9 of 10 beverage alcohol consumers drink across all 3 categories. And in fact, that share of consumers has grown since the last time I spoke here. So our position across beer, wine and spirits, enables us to capture a share of wallet of the beverage alcohol consumer bigger than if we were only in 1. Now back in 2019, I said this was one of my favorite slides. And guess what, it still is. So for those of you who have seen this before, I can confirm that the consumer who drinks across all 3 categories still spends on average, 6x as much as someone who only drinks one of them. That reinforces the importance of our strategically diversified portfolio across all 3 categories. Lastly, as we look more broadly at other consumer-led trends driving growth across all 3 categories and specifically within the higher-end segment, we've been focused on 3 main things: betterment as consumers seek better-for-you options, flavors as consumers revisit along existing part of the beverage alcohol sector with dramatically more enthusiasm and e-commerce as this broader secular trend accelerated due to the global pandemic and now shows no signs of reversing. These have all been important elements to our strategic approach to innovation in recent years and will continue to play a pivotal role.

Now considering the industry backdrop, we have put in place fitting strategic initiatives that are winning the consumer, delivering growth and creating value. Shortly after I last attended this conference, I assumed the role of CEO. And since then, our leadership team has adopted and steadily advanced plans to do 4 things. First, continue to build powerful brands that people love, develop consumer-led innovations aligned with emerging trends and to consistently shape our portfolio for growth. Third, deployed capital in line with disciplined and balanced priorities; and fourth, operate in a way that is good for business and good for the world. Let's start with the first one. Our portfolio is comprised of powerful beer wine and spirit brands, including iconic brands that consumers love and keep coming back to, which, in many cases, translates into brands with leading positions across their categories, segments and varietals. Exciting brands that consumers are increasingly gravitating to with incredible momentum, which drives ongoing share gains quarter after quarter for many of these brands and exceptional brands that play key roles and special moments with family and friends. The differentiation and strong equity is reinforced within our portfolio.

So while we're incredibly proud of our portfolio of brands, I will only touch on a handful of them today as we have a lot of things to cover. With that, let's start with Corona Extra, which is perhaps one of the brands in our portfolio that most clearly embodies the traits that I just described. Over the last 3 years, Corona Extra faced one of the brand's most significant headwinds. I mean, come on, right? It shared the same name as a virus that caused the pandemic and to basically shut down the world. Other than that, it was a piece of cake. So yes, there were those who predicted that this would be the demise of Corona Extra. But instead, we saw just how resilient and powerful this iconic brand truly is. Not only did Corona Extra weather the storm, so to speak, it came out stronger, and this was not by accident, but due to our brand team's work to reignite Extra's growth. The introduction of the La Vida Más Fina campaign evolved the brand's marketing while maintaining its relaxation essence, Much like how Finder Beach advance the brand from being associated with a physical beach to a state of mind.

And the execution of our latest campaign couldn't have possibly been better with 3 of the top 5 scoring ads in the beer category, including the coveted #1. In addition, Corona Extra's awareness and consideration levels are currently unmatched above any beer brand in the U.S. And the brand has the #2 share of voice position in national media and advertising only behind Modelo. So the strength of the brand is remarkable, as shown by the high single-digit depletion growth Corona Extra has been delivering, particularly as it gains more traction with consumer demographics that have been underpenetrated by the brand. And we will continue to invest behind the momentum of Extra by increasing our TV spend, having high-impact placements, leveraging streaming platforms like Hulu, Roku and Peacock and by building on our partnership with Major League Baseball and launching other exciting sports-focused partnerships around basketball and football.

Now moving on to Modelo Especial. This may come as a surprise to some of you not as familiar with our brands or who don't follow the beer category, but Modelo Especial is the #2 beer brand in dollar sales in the U.S. market, a spot that had captured over a year ago. And even with this amazing growth the brand has seen and the heights to which it has risen, there is still a lot of opportunity. The brand still has plenty of runway to grow share in markets where it doesn't hold a leading position as well as to continue making inroads with non-Hispanic consumers. I think some of you will find the facts that I'm about to say, interesting. Out of the 10 states where Especial has the highest dollar sales in tracked channels, there are only 2 where the brand already has double-digit share, that being California and Nevada. And the average share in these 2 states is more than twice the average share of the other 8 states that are in the top 10. So we still have plenty of share opportunity in states that are already meaningful to the brand.

Beyond those top 10 states, the opportunity is even more significant. Modelo Especial's average share in the other 34 states tracked by IRI is less than 1/4 of the brand's average share in California and Nevada. From a demographic perspective, Especial does have a leadership position with the Hispanic consumer. But the brand is still growing that consumer base, getting households and achieving significant buy rate gains. Modelo Especial is also the only top brand growing household penetration with non-Hispanic consumers. But it still trails some competitors in both. And in fact, it has only 80% of Corona Extra's penetration. So while Modelo Especial already has the #1 share of voice in the category, we'll continue to build awareness and penetration for the brand by increasing our media investments. On Live TV, live sports continue to dominate the ratings. So that's where we are investing most of our traditional media dollars. With the NFL and NCAA games representing 21 of the 25 highest ranked programs on TV, football is particularly compelling. We plan to remain the official beer sponsor of the college football playoffs and our investments around the NFL season have also become a centerpiece of our plan. Beyond TV, we are investing in places where consumers are increasingly going. So we intend to continue to ramp up our efforts in digital and social media with a clear focus on platforms where we can have the biggest impact. All these considerable upside opportunities for Modelo Especial, share, demographics, awareness, penetration give us massive confidence in the significant growth potential that the brand still has.

Let's move on to Pacifico. Pacifico is one of the hottest brands in all of beer. It's the fastest-growing major brand in the category. And this past year, it also increased its national awareness by a full 4 points, the biggest increase in the beer category. Pacifico is winning with younger legal drinking age consumers by going to market as a lifestyle brand. We see this as an opportunity to further build the brand without cannibalizing Modelo and Corona. It has had strong success in building its equity at the local level and in areas like action sports and outdoor adventure. This resonates with consumers looking to connect in authentic ways and to identify as living off the beaten path. However, Pacifico is only a fraction of the size of Corona Extra and Modelo Especial, and it remains largely a West Coast brand with significant penetration and distribution opportunity across the U.S. So over the medium term, we believe this brand can deliver 10% to 15% annual volume growth. To drive that, we will reinforce Pacifico's West Coast momentum while pursuing growth across the rest of the U.S. through key metro areas. N

ow shifting to some of our wine and spirits brands starting with Kim Crawford. It's incredible to think that in a couple of years, we will celebrate the 20th anniversary of our acquisition of this great brand. A brand that still delivered double-digit annual growth in tracked channels in the 4 years since I last presented here and a strong high single-digit depletion CAGR as well. The sustained success of Kim Crawford has been driven by our efforts to continue growing its core while extending the brand. Kim Crawford began as a niche Sauvignon blanc from New Zealand. It has since grown to be the #1 Sauvignon blanc in the wine category, but it is now also much more than that. It is a high-growth consumer lifestyle brand instead of a single product. And we still believe it has significant untapped growth potential, which we are pursuing through 4 key initiatives.

First, Kim is now – has a focused portfolio of products that resonate with our target multi-cultural female consumer. The brand extended its leading position in Sauvignon blanc to the leading betterment SKU in the category can Crawford Illuminate and recently introduced an Italian Prosecco and a French Rosé. Second, Kim has also evolved its positioning from the functional to the emotional with our Make An Amazing campaign, which you have started to see in TV and digital channels in the last few months. Third, the brand has integrated its marketing ecosystem more broadly with a portfolio approach featuring all 4 core SKUs. And fourth, it's broadened its footprint, both in the U.S. wholesale and internationally, while maintaining pricing discipline across its products. So we remain enthusiastic about continued portfolio extension and positioning opportunities for Kim Crawford.

But let's talk about a few brands that came into our portfolio more recently. In fact, most since I joined Constellation's leadership team. Just like Kim Crawford, Meiomi came into our portfolio through acquisition. And while Meiomi was a more recent deal, it had a similar path. Back in 2015, Meiomi was a brand that included a fast-growing Pinot noir and had just introduced a Chardonnay the year prior. Today, the Pinot noir holds the #1 spot for that varietal across the entire U.S. wine market, and the Chard has risen to the #3 spot for that varietal in the ultra-premium segment. A couple of years after the acquisition, the brand introduced a Rosé, which is now #5 in the ultra-premium segment for that varietal. And since we last attended this conference, the brand has also launched a Cabernet Sauvignon, a red blend and Meiomi Bright, a low-calorie lower alcohol offering of the Pino.

Meiomi 's carb remains the #1 growth driver in the ultra-premium segment for Cabernet and the Red Blend captured the #2 new line SKU spot in its first year of existence. We are excited about the potential for Meiomi Bright and see additional opportunities in developing products aligned with consumer-led betterment trends, which I'll discuss shortly. In addition to broadening the shoulders of this great brand, we have also focused on driving awareness by refining Meiomi's positioning and showing up as a family of wines. Over the last 12 months, the brand's consideration increased by 1 point, and there is more to come as we lean further into the brand's labor forward positioning with new marketing campaigns. So again, just like Kim Crawford, we think Meiomi is well positioned to continue to grow its trajectory over the medium term and have a vision to continue to build on the double-digit growth rates it has delivered since we were last here at CAGNY.

Now let's talk about the equally exciting Prisoner portfolio. The year after the acquisition of Meiomi, we acquired the Prisoner Wine Company. At acquisition, the Prisoner portfolio was primarily a red blend, which represented 82% of the business, and the remaining 18% included multiple small and often discounted direct-to-consumer SKUs. Since then, the Prisoner Wine Company has been reimagining itself and is now a smaller set of high-growth brands with a long runway. The portfolio remains centered around brands from the acquisition with strength in key profit pools like the Prisoner and Saldo. Tail brands like Cuttings and Thorn have been rationalized and new brands have effectively broadened areas of opportunity like Unshackled and entry-level luxury offering that doubled the addressable market. The Prisoner now has a powerhouse collection of brands each leading their segments with their own purpose and personality. And although delivering impressive annual growth rates both in depletions and attract channels for dollar sales as well. However, the Prisoner Wine Company has much more runway ahead, particularly as we continue to make inroads through direct-to-consumer channels and in international markets. So we remain excited about the future of this part of our wine portfolio.

And now on to our Spirit brands. You've probably noticed a pattern in our ability to acquire and enhance emerging high-end wine brands. Over the last few years, we've had similar success in our efforts with spirits. We acquired High West, the same here as the Prisoner and the brand has delivered tremendous growth. But we firmly believe it is now even better positioned to deliver consistent growth well into the future. The brand has strategically diverse but focused portfolio. Its core products, the Bourbon and the Double Rye are gaining share in the higher-end segment of the spirits category. Its limited release products are winning accolades in international competition, enhancing the brand's relevance and credentials. And more recent innovations, like it's barrel-aged ready-to-drink cocktails and its partnerships with other brands in our portfolio like the Prisoner, are off to a great start. With that solid positioning, the brand has been accelerating its growth throughout this fiscal year, outperforming the higher-end whiskey category.

Shifting to our tequila brands, Casa Noble and Mi Campo. We acquired Casa Noble a bit before my time over 8 years ago now, but a couple of years later launched Mi Campo as a new-to-world brand. Each brand has developed its own identity at different price points at the higher end tequila segment. Casa Noble is an ultra-premium tequila focused on a maturing consumer looking for quality and nuance beyond the super premium Big 3 brands. And Mi Campo offers an introductory price point for millennial and Gen Z legal drinking age drinkers, entering the high-end tequila segment through a premium product. Together, these brands have delivered strong growth and have been independently recognized for their incredible products. Since the last time we participated here at CAGNY, they have delivered compound annual growth rate for depletions of nearly 30%. And in terms of accolades, Casa Noble was recognized in 2022 by international drinks and the International Spirits Challenge and Mi Campo by the Global Spirits Awards. Building on that strong foundation, our recently launched innovation extensions to the existing product lines of both brands. Casa Noble introduced its Marques ultra-premium Añejo and Mi Campo, its spicing Margarita and Mango Mule ready-to-drink cocktails. We are excited about the opportunity that still exists for both these brands in one of the hottest segments in all of beverage alcohol.

So as I mentioned earlier, we have an incredible portfolio of powerful brands. We value them greatly and are working relentlessly to maximize their long-term potential. But we're also an ambitious company with equally important expectations to continue building brands that people love. So we're developing consumer-led innovations aligning with emerging trends that will continue to shape our portfolio to deliver profitable growth. And as you heard earlier, there are 3 key trends that are informing these innovation efforts, starting with betterment. A few years ago, betterment was heavily defined by lower calories and carbs, leading to products centered around that narrow definition. However, betterment has evolved to now include low or no sugar, organic, natural or real ingredients and functional benefits. In fact, today, more than half of legal drinking age consumers claim they are on some sort of betterment journey. Hopefully, some of you fall into that category. So in response to that broader definition and the adoption of betterment, we have a more holistic approach and growing range of differentiated premium products to address it.

I already touched on Meiomi Bright and Kim Crawford Illuminate and among our beers, we currently have Corona Light and Premier. Light has a strong East Coast fan base, and it's a great regional play, while Premier is our national play for Corona. Both brands have opportunities in cans, and there are still consumer education and marketing opportunities for Premier. And next month, we will also be launching Modelo Oro nationally after it exceeded both our external and internal benchmarks in 3 test markets where we trialed it this fiscal year. Let me be clear, we would not be launching Oro nationally if we didn't think there's a place for it, along with our Corona offerings. Oro was significantly incremental during testing. The key consumer demographics for Premier are younger millennial colleagues, and we are seeing a strong resonance with female consumers. The key consumer demographic for Oro are more males and Hispanics dissatisfied with domestic mainstream lights. So there is differentiated opportunity amongst those brands.

As part of our venture portfolio, we currently have 2 nonalcoholic and very low to no calorie products. HOP WTR, a sparkling nonalcoholic HOP WTR with mood boosting ingredients and Karma Water, which has a patented push cap that instantly adds nutrients to avoid the deterioration that occurs over time when they are premixed. And also next month, we will be launching Corona NA nationally, a nonalcoholic version of one of our flagship brands. Flavors are also a multifaceted space within beverage, spanning across beer, wine and spirits. So we have adopted a portfolio-wide approach to this trend with a range of brands across flavored beer, flavored malt beverages, hard seltzers, ready-to-drink spirit cocktails and wine spritzers. The shining stars of that portfolio and our flavor innovation program has been our Chelada products. Our Modelo Chelada brands hold the #1 spot in that space and have more than tripled their depletions since our last presentation here.

In fact, in our latest quarter, the brands gained nearly half a share point amongst all U.S. beer and tracked channels. That's as much as Corona Extra gain. These gains were largely driven by innovations launched this fiscal year, including new flavors, pack sizes and variety packs. And we continue to expect significant growth from the Modelo Chelada brands as we invest in marketing to the general market consumer to broaden the demographic appeal for this product. Overall, our insight-driven and disciplined approach to product innovation has resulted in additions that have delivered growth. In fact, in our beer portfolio, our SKUs introduced over the past 3 years have driven 20% of the growth delivered by the business since the start of the 2020 fiscal year. So we are proud to be differentiated across our competitive set by the growth we're driving from both our core and our innovation efforts.

And last but not least, we bet 5 years ago on the opportunity we saw to support the momentum of our growth through digital commerce, in particular, 3-tier e-commerce, and this bet has paid off. While 3-tier e-commerce totals today, only 4% of alcohol sales, it's driving roughly 19% of its growth. Put another way, this channel is increasingly driving growth in beverage alcohol, but the impact of e-commerce, whether it's 3-tier e-commerce, DTC e-commerce or even B2B e-commerce extends beyond consumers simply shifting and buying more online, because increasingly, a consumer's first point of exposure to our brands is online through a retailer, website or app eventually driving purchase both online and off-line. In fact, we estimate that for every $1 we sell online, our brand's digital and online presence helps drive another $9 of sales in store. So in the 3-tier e-commerce world, we aren't standing still. In the first 3 quarters of our current fiscal year, we outpaced beverage alcohol sector's growth online, growing 3.6 points faster, given the momentum and incredibility to us to strengthen our partnerships across the omnichannel landscape.

Shifting now to our third strategic initiatives, our disciplined and balanced capital allocation priorities. We introduced these priorities shortly after my transition into the CEO role and more recently updated some of these targets within them to reaffirm our commitments to first, a disciplined financial foundation by maintaining an investment-grade rating and targeted dividend growth in line with earnings. Second, by balancing reinvestment and additional returns through organic investments and expansions of our businesses and additional returns to shareholders through share repurchases. And third, deploying excess cash thoughtfully and prudently through small M&A transactions that fill portfolio gaps. Recently at another conference and during our earnings call, we shared updates on how we've been delivering against these priorities. So today, I will only briefly recap some of that. but we do have in the appendix detailed slides on our capital allocation performance for anyone who may have missed those prior discussions.

So starting with disciplined financial foundation. We recently updated our medium-term target net leverage ratio to basically 3 turns. We initially had set at 3.5 turns. But in the past couple of years, we virtually operated at 3. So while we're back to being closer to 3.5% due to the financing associated with our recent stock reclassification transaction, we are confident in our ability to achieve 3 turns in the not-too-distant future. Our dividend payout ratio is approximately 30%. Aligned with that target, we returned approximately $1.7 billion through dividends over our last 3 fiscal years, and our payout remained in line with peer average. As we look ahead, we will continue to ensure we offer an attractive dividend that grows with our earnings. Moving to balancing reinvestment and additional returns. From an investment perspective, we are focused on supporting the momentum of our business through organic growth projects. In our beer business, we are working to add 25 million to 30 million hectoliters of capacity by 2026 fiscal year. These will be modular additions across our different brewery sites in Mexico, including our new one and Vera Cruz and will be supported by $5 billion to $5.5 billion of investments over that time frame. And in our wine and spirits business, our organic investments are focused on our DTC offerings, particularly through hospitality.

From an additional returns perspective, we have completed $2.8 billion in share repurchases over the last couple of years. And this part of our goal was part of our goal to return $5 billion to our shareholders through dividends and share repurchases between fiscals '20 and '23, which we are on track to exceed. Looking ahead, we have an additional $1.2 billion of authorized share repurchases at our disposal that will be utilized opportunistically. And finally, thoughtful and focused M&A. Over the last few years, we have continued to execute acquisitions primarily in our wine and spirits business. Our approach has emphasized a small gap filling opportunities that meet a strict set of strategic and financial requirements. Some of these recent acquisitions have been Austin Cocktails, Lingua Franca and My Favorite Neighbor, all of which are delivering growth. Moving forward, we will maintain this rigorous assessment of excess cash deployment as it relates to M&A.

Our fourth strategic initiative has been to operate in a way that is good for business and good for the world. Toward that end, last year, we published our latest impact report, which provided a comprehensive review of our ESG strategy and key initiatives to safeguard our environment and natural resources to make positive differences in the communities where we operate, to continue to enhance our governance profile and to advocate for the responsible consumption of beverage alcohol products. So as with capital allocation, today, I will only briefly recap our targets and activities we have underway to achieve them. But again, more detailed information is also available in the appendix slides, including some examples of specific projects. Starting with environmental stewardship and our ambitions on water. We've established a clear strategy and operating plan focused on water efficiency, watershed restoration and water accessibility and quality. And over the next 3 years, our goal is to restore approximately 1.1 billion gallons of water. We are also working on reducing our greenhouse gas emissions. And to that end, we continue to invest in renewable energy for our facilities and seek innovative solutions to improve our energy consumptions. And we are aiming to reduce our Scope 1 and Scope 2 GHG emissions by 15% by fiscal '25.

Moving on to another very important topic for our business and our communities, fostering an inclusive culture. We start with our own efforts within Constellation Brands, where we aim to create a diverse workforce that reflects the consumers we serve and the communities in which we live and operate. By fiscal '26, we aim to have 50% female representation and for 30% of our workforce to be from ethnically underrepresented groups in the United States. As of fiscal '22, our final representation was approximately 43%, and our ethnic diversity among our employee base was at 22%. So while we've made some real progress, we recognize we still have room for improvement. Beyond our company, we are also advancing diversity, equity and inclusion within the beverage alcohol industry. We are committed to investing $100 million to both our focus on female founders and focus on minority founders initiatives by 2028 and 2030, respectively. These initiatives seek to provide more equitable access to capital to underrepresented groups in our industry, while enabling us to drive greater equity while investing in bold leaders and brands with unique value propositions that align with our premiumization strategy. Additionally, we continue to create opportunities to accelerate change across beverage alcohol through collaboration with industry groups and initiatives that support more diverse and inclusive workplaces. So as our industry and the world evolves, so too has our approach to making a positive impact on the environment and society. and we will continue to pour our time, resources and passion into these efforts as they are both good for business and good for the world.

We recently also achieved a notable enhancement to our corporate governance profile. Last November, our shareholders approved the elimination of our Class B common stock, and we officially moved to a single Class A common stock with 1 share 1 vote rights. This change aligned in the voting power and economic ownership of all shareholders. As part of that transition, we also introduced several other changes that better aligned our corporate governance profile with today's expectations of stockholders, shareholder advocacy groups and proxy advisers, including changes to the election of our directors, the rotation of our lead director and other governance matters shareholders identified as being important to them. So I would like to once again thank everyone who supported these enhancements. Another very important topic, not only for governance of our business, for the governance of our industry is responsible alcohol consumption. Our efficacy for responsible consumption comes to life in our memberships across industry forums that support important initiatives on this critical matter. We are members of the Boards of Directors of Abir Institute, the Wine Institute, which provides key information to legal drinking age consumers that supports moderate and responsible consumption. We are also executive members of the Board of Directors of Responsibility.org a national, not-for-profit that aims to eliminate drunk driving and underage drinking. We're also members of the brewers voluntary disclosure initiative and the Distilled Spirits Council of the U.S., which also support responsible consumption campaigns. As discussed earlier, we also continue to evolve our portfolio to support consumers seeking lower alcohol and lower calorie products as part of a lifestyle choice. All in, we believe that good governance is good business, both for our company and for the world.

Now that we've talked through our perspectives on the consumer, how these have informed our strategic initiatives and how we are winning across each of these initiatives. Let's spend some time on what you've all been waiting for, which is how is this translating into results. Starting with our beer business. Our results are truly best of class, having delivered over 50 consecutive quarters of depletions growth. Now in our most recent quarter, we did see a brief deceleration of that growth relative to the few quarters prior, but this was due to a few temporary factors. As noted in our earnings call last month, the main driver of that deceleration was incremental pricing that was introduced for our products in the fall. As we also stated, we expected the impact on depletions from those pricing actions to settle in, in the months following their introduction. For those of you that follow the performance of our beer business and track channel syndicated data, you have already seen the rebound in volume growth in recent weeks. As a result, despite a slow start in December for the months of December and January, depletion growth accelerated to over 6% from the 5.7% we realized in the third quarter. and we remain very confident about the growth of our brands moving forward. Please note today that we are sharing December and January depletion growth figures because of the unique factors I just outlined. But moving forward, we are not intending to comment on depletion growth beyond the disclosures that are part of our usual quarterly results.

Now not only is our beer business delivering depletion growth and taking share is also delivering best-in-class margins. In fact, since fiscal '19, despite the challenges faced by most businesses due to the pandemic. Our beer business delivered net sales growth and an average operating margin at the high end of our medium-term target ranges. And while fiscal ’23 and fiscal ’24, we are facing and expect to face low double-digit and then high single-digit inflationary headwinds in packaging and raw materials, which are the biggest portion of our beer business costs, we still expect the business to continue to achieve margins just slightly below the medium-term range, which are still best-in-class margins in our industry. And of course, we continue to expect to remain within our net sales algorithm and delivered top line growth between 7% and 9%. Our ability to sustain these growth rates and margins is not only supported by the continued momentum of our brands, but also by our consistent approach to annual pricing and relentless pursuit of operational efficiency and cost-saving initiatives. And we will continue to leverage that same flywheel of driving growth, taking price, reinvesting in the business and executing with operational excellence to maintain the momentum of our beer business.

Our wine and spirits business has undergone a significant transformation over the last 4 years. We shifted from being primarily a U.S. wholesale business, mainly serving the mainstream segment to become an omnichannel global competitor primarily focused on the higher end. This journey, including integrating and accelerating the higher-end brands covered earlier in this presentation as well as the divestitures of some lower end brands, including the sale of 30 low-priced brands to Gala, which we completed in fiscal ’21 and the more recent divestiture of a smaller set of brands to the Wine Group, which completed earlier this fiscal year. Despite the divestitures, our business has retained scale as we remain the #2 supplier of wine in the U.S. market. but more importantly, approximately 60% of our portfolio mix on a net sales basis is now from the higher end, a dramatic shift from roughly 35% in fiscal 2019. Additionally, we’re making progress expanding the avenues for growth of the business. We have materially increased sales coming from our direct-to-consumer channels and grown our international sales as we continue to target large metro markets such as Tokyo, London and Soul. As a result of this shift, we have seen the net sales mix contribution of our international and direct-to-consumer channels increased by 600 basis points since fiscal '19. That said, we continue to see further upside for our wine and spirits business from the dramatic changes it has undergone as we continue to capture growth from our higher-end brands as we bolster our performance for our mainstream brands by repositioning them and through innovation and further expand our omni-channel and international footprints in the coming year.

The strong performance of our businesses has in turn supported Constellation's remarkable decade-long track record as a CPG growth leader, and outperformance in total shareholder returns versus our peer set, both against each of our top competitors and the group's average. So in closing, let me leave you all with the following key takeaways. Consumer demand for our products remain strong, even in a challenging macro environment. We are a growing industry with a portfolio that is incredibly well positioned. The strategic initiatives we introduced 4 years ago are delivering profitable growth and shareholder value, and we are doing that in a way that is both good for the world and good for business. And as we look ahead, we are just as confident and excited about the future of our company as we were 4 years ago when we last presented to this group. So please stay tuned. Thank you. And I think we have time for a couple of questions.

Question and Answer

Brian Bennett

Dara, you're up. It's tough to see under the light.

Dara Mohsenian

Yes. So one of the key drivers of the beer business historically has been shelf space gains and distribution expansion. You didn't talk about that as much in the presentation today. So can you take us through your recent performance now that we've sort of leveled off post COVID and how important a growth driver that is going forward relative to history?

And then second, you mentioned upfront, some of the concerns have emerged recently. Margins has been a topic of discussion. You gave the initial guidance for flat margins next fiscal year, off of the roughly 38% base this year. Has anything changed around that front in terms of your thinking on the cost front or any changes last gave guidance there.

William Newlands

Yes. So let's start with the distribution question. Distribution is still a strong opportunity for us. And it varies some by brand and by market as you might expect. I thought, and hopefully, you found it interesting some of the facts that we shared about Modelo as an example. There probably is a massive shelf opportunity in a state like California where we've got over a 30% share of the business. However, there's a tremendous amount of distribution opportunities as you think about pack sizes and spreading out the shelf across many, many areas of the rest of the country. The same would be true on things like Pacifico and Oro coming in and Chilatas. And if you start to run down the list, we still have a lot, and we are tasking our organization aggressively to continue to build shelf space. Frankly, we think we don't have the shelf space we deserve for both the size that we are and the growth profile that we represent.

Relative to your question about margins, as I said earlier, we expect to be roughly in line with what we will be doing this year, next year. The crap shoot that I'm sure you've heard over the course of the last couple of days and you'll probably hear again tomorrow, is inflation. That's the one thing that's very hard to anticipate. We certainly know what we'll be doing around our cost savings initiatives, our operational efficiency, pricing, many, many things that we have a very good handle on. The inflation ones is still a question. It's still higher than we have traditionally seen, which is going to continue to put some pressure, but we still believe that we are going to be only slightly below our long-term thing and much closer to what you will see in our delivery of this fiscal year.

Jaime Katz

So in the beginning, when you – or towards the beginning when you went through the conversation for comparing Modelo's market share in California to other states in the U.S. nice slide. But my question on that is, how do you think about the comparison between California and other states? Do you think about Hispanic population? Do you think about economic distributions? So what are some of the other factors that might make other states similar or, frankly, different from California?

William Newlands

Yes, you bet. Hopefully, everybody heard that question. Several different things. One is there's a fair amount of growth that's still available with the Hispanic community across the country. We are still seeing growth and buy rate increases with that community. So that's obviously very positive. We are also underpenetrated compared to even some of our own brands, never mind some others in the category with Modelo even compared to Corona Extra. And as you know, it's been pretty recent since we've been advertising Modelo Especial to the non-Hispanic community. We see just tremendous upside. And as we looked at the comment about the next 8 of the top 10 having less than half the share positions that you have in California and Nevada, it just speaks to just a massive amount of opportunity for Modelo Especial. I mean, all that being said, it's already the #2 brand in the entire category. So we just think that the runway for that is long, and there are multiple avenues to extend that franchise, one of which will be Oro. We think that's going to fit very nicely into our overall betterment piece of our business. And we're very optimistic about what that can do to again add continued life to the Modelo franchise.

Brian Bennett

Okay. With that, we're going to go ahead to the breakout.

William Newlands

And Brian is calling the hook.

Brian Bennett

Thanks, William .

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