Constellation Brands Inc, Q4 2025, Earnings Call
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Presentation

Operator

Greetings, and welcome to the Constellation Brands Q4 Fiscal Year 2025 Earnings Call. — ***Operator Instructions*** — As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to your host, Joseph Suarez, Vice President, Investor Relations. Please go ahead, sir.

Joseph Suarez

Thank you, Kevin. Good morning all, and welcome to Constellation Brands Q4 and Full Year Fiscal '25 Conference Call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO. We trust that you had the opportunity to review the news release, CEO and CFO commentary and accompanying slides made available yesterday evening in the Investors section of our company's website, www.cbrands.com.

As we have received a couple of questions regarding certain figures contained in our slides, please note that we expect our beer net sales growth rate for fiscal '26 to be between 0% to 3% and for fiscal '27 and '28 to be 2% to 4%. And our operating income growth rate for fiscal '26 is expected to be between 0% to 2%, and for fiscal '27 to '28, we expect operating margins to be approximately 39% to 40%.

On that note, as a reminder, reconciliations between the most directly comparable GAAP measures and non-GAAP financial measures discussed on this call are included in the news release and website, and we encourage you to also refer to the news release and Constellation's SEC filings for risk factors that may impact forward-looking statements made on this call.

Before turning the call over to Bill and Garth, please keep in mind that as usual, answers provided today will be referencing comparable results unless otherwise specified and that any references to expectations for fiscal '26 to fiscal '28 reflect the anticipated impact of the tariffs announced by the U.S. government on April 2 and the Canadian government on March 4 of this year, inclusive of the delay in the effectiveness of certain tariffs announced by the U.S. government yesterday, which will particularly impact the wine spirits business.

Lastly, in line with prior quarters, I would ask that you limit yourself to one question per person, which will help us to end our call on time. Thanks in advance. And now here is Bill.

William Newlands

Thanks, Joe, and welcome, everyone, to our Q4 and full year fiscal '25 call. As usual, I will outline a few overarching highlights, but we will then move immediately to Q&A as our broader commentary was provided to you yesterday. So let's get going. In a tough socioeconomic environment, we are taking decisive actions designed to continue to support our industry-leading beer business, reset our cost base and redefine our portfolio.

More specifically, first, in fiscal '25, despite a softer consumer demand backdrop, largely driven by what we believe to be nonstructural socioeconomic factors, we continue to deliver enterprise net sales growth, realized substantial comparable operating margin improvement and achieved double-digit comparable EPS growth.

Second, looking ahead, while we expect these nonstructural socioeconomic factors affecting consumer demand to gradually stabilize and subside, we remain focused on driving distribution gains on launching disciplined innovation and on deploying incremental marketing investments to support the growth of our beer business, all while continuing to deliver best-in-class operating margins.

Third, in addition, we expect significant improvements in the performance of our Wine & Spirits business beyond fiscal '26, following the anticipated closing of the 2025 wine divestitures transaction that is primarily centered around the sale of the remaining mainstream wine brands in that portfolio as well as the implementation of associated restructuring actions expected to yield over $200 million in net annualized cost savings across the enterprise by fiscal '28.

Fourth, against that backdrop, we are targeting to deliver approximately $9 billion in operating cash flow from fiscal '26 to '28 and approximately $6 billion in free cash flow as we continue to invest primarily in the modular development of our third brewery in Veracruz and modular additions at our existing facilities in Mexico.

And fifth, in line with this strong cash flow generation and having achieved our comparable net leverage ratio target in fiscal '25, we remain committed to a disciplined and balanced capital deployment framework, including our 30% dividend payout ratio and executing share repurchases against our new 3-year $4 billion authorization.

And with that, Garth and I will be happy to take your questions.

Question and Answer

Operator

— Operator Instructions —

Our first question is coming from Lauren Lieberman from Barclays.

Lauren Lieberman

I wanted to know if you could comment more specifically on tariffs. Is the beer business currently USMCA certified so we can get some visibility on what is baked in, in terms of tariffs with regard to Mexico? And also what else is baked in, in terms of aluminum cans and so on. So more visibility there would be really helpful. And then I was also just curious on the longer-term forecast around beer and the notion of socioeconomic nonstructural dynamics. But how are you thinking about beer industry growth over this projection time line?

William Newlands

Sure. Why don't I start with the first part of the question. We have been USMCA compliant since it was implemented several years ago and remain USMCA compliant today.

Garth Hankinson

In addition to that, Lauren, the guidance that we provided does include the impact for all tariffs announced by the U.S. government on April 2, and by the Canadian government on March 4. For our beer business, this includes the impact on our aluminum cans. And for our wine business, this includes the impact for our brands coming out of New Zealand and Italy into the U.S. and for our brands from the U.S. into Canada.

William Newlands

Relative to the longer-range perspective on beer, there's been obviously a lot of what we see as near-term headwinds. But we think that those over time, particularly as the Hispanic consumer who's been particularly challenged, gets back to more sort of normal operating procedure.

Operator

Next question is coming from Nik Modi from RBC Capital Markets.

Nik Modi

Bill, maybe if I could just kind of piggyback off Lauren's question on the long-term beer outlook. I get the fact that things are really kind of choppy right now, but the cut in the guide just kind of over the next couple of years seemed a bit extreme relative to what you guys have been doing even with the slowing down that we've been seeing that I think we can all agree some of it is very temporary.

So when I speak to the trade, it's pretty clear nothing has really changed on an underlying basis with the brands, the momentum, kind of how retailers are looking to space your portfolio in a bigger sense, greater manner.

So just wanted to kind of get your philosophy on the range of being down this up 2% to 4%, which is versus the 7% to 9% and kind of how you're thinking about that? I mean, are you just kind of assuming things just stay the way they are? And if there's upside, great. So any context on that would be really, really helpful.

William Newlands

Sure. Well, let's start with the most important thing, Nik, and today is Nik's birthday. So happy birthday, Nik. Now getting on to the main point. The most important thing as we look at it relative to the medium term is our brand health. And fortunately, all of our brand health metrics remain extremely strong. We're very focused on what we can control, and that's distribution. It's focused innovation. It's making sure that our execution is top notch.

You noted we gained over 10% in share of space in the resets that occurred last year. So that remains a positive factor. It's very difficult to know exactly how long some of these socioeconomic issues are going to continue. Certainly, we know that the Hispanic consumer is particularly concerned about a number of issues. And we would certainly expect some improvement as those consumers become more comfortable and less concerned about the many issues that follow them.

We don't have an exact answer to when that is going to moderate. And I think it's important to note that the guidance that we have provided reflects the fact that there are a lot of unknowns today, including things like tariffs, but also the impact that we're seeing with the Hispanic consumer. Until we get a more definitive answer to some of those questions, it's a tough answer to give.

Fortunately, that consumer, the Hispanic consumer continues to show extraordinarily loyalty to our brands. And over the long term, that will moderate and continue to allow us to gain share as we have for the last several years.

Garth Hankinson

And Nik, let me just add a couple of the actual brand health sets that Bill referenced. We've actually seen some pretty significant increases in aided awareness and consideration from Modelo, Corona and Pacifico, which is in line with what we would expect from the media investment that we put in place this last year.

All brands are holding steady on measures of popularity across all adults, Hispanic and Gen Z. Pacifico was up statistically significantly in California, and all our brands are holding steady on the other metrics that we track, including is this a brand I love? Is it a brand everyone likes? Is it a good value? Is it a brand with heritage and net favorability.

Operator

Next question is coming from Bonnie Herzog from Goldman Sachs.

Bonnie Herzog

I just wanted to ask a quick follow-up on – in the context of your cut to your medium-term algo, what are you assuming for the beer category growth or I guess, declines over the next few years? And then I wanted to ask about margins, beer margins. Could you maybe walk through the different puts and takes that are going to allow you to deliver your best-in-class beer margins of 39% to 40% over the next few years despite, I guess, a considerable expected slowdown in volume and some tariff risk. I mean you mentioned some cost cutting. So could you give us some more color on that and possibly quantify?

William Newlands

I think Slide 18 is going to help you on some of those broad answers. But our view is over the course of the medium term, the beer industry overall will likely go back to what it has done over the last several years, which is roughly flat to down 2%, somewhere in that range. And as we've said on prior calls, we've seen a significant delta between whatever the beer industry is and our performance against it, where we have gained significant share.

We expect that, that overall approach is going to continue and that we'll get back to a more normal, I'll call it, normal trajectory into the medium term. As I spoke on a couple of the prior questions, how quickly that comes around will largely depend on what consumer sentiment is as we move forward.

Garth Hankinson

Yes. And then, Bonnie, on margins, I apologize, it's probably a bit of a boring story because I think we've said it a few times before, nothing has really changed. First of all, we're going to manage our footprint in the modular fashion that we've referenced previously. So we're going to limit the impact of depreciation and overhead absorption issues. In addition to that, we'll have incremental volume growth. We'll maintain our 1% to 2% pricing algorithm. And certainly, we'll continue on with our cost savings initiatives.

Obviously, those tailwinds will be offset on a year-to-year basis by inflation and tariffs. But net-net, when we put all that together, we think we can continue to deliver best-in-class margins at 39% to 40%.

Operator

Next question is coming from Rob Ottenstein from Evercore ISI.

Robert Ottenstein

I just want to make sure I get this as crystal clear as possible. I'm wondering if you can just kind of go through again how you're thinking about free cash flow deployment. And given the fact that you've shrunk the Wine & Spirits business or repositioned it. And given the fact that at least over the next couple of years, you expect less growth from the beer side of the business, you're reducing CapEx.

Are you today and kind of going forward, more open to larger acquisitions? Are you spending more time on acquisitions given the increased cash flow? So I'd love to get your thoughts on that. I know you've re-upped the authorization on the share buyback, is – tied to that, is that a strong commitment that you will buy back? I think it was $4 billion worth of stock over the next 3 years. Just trying to get a sense of the priorities there and what is kind of guidance versus actual commitments along those lines?

Garth Hankinson

Well, thanks for the question, Robert. And on the one hand, this will be another boring answer because I think it's a lot of consistency with what we've said in the past. But actually, I think it's pretty exciting what we're going to be doing here. I mean, as we outlined through FY '28, we're going to generate $9 billion of operating cash flow and $6 billion of free cash flow. Our capital allocation priorities don't change. We're committed to being – we're committed to achieving 3x leverage. We're there now. We're actually a little bit below there now.

We're committed to returning capital to shareholders through dividends, and we'll maintain our approximately 30% dividend payout as we go forward. And then you referenced the new authorization for $4 billion in share repurchases that we received from our Board yesterday. This is actually, I think, very exciting. I mean not only is the $4 billion share repurchase authorization reflective of our discipline around capital allocation and share repurchases more specifically, but it's also reflective of the fact that we think that we're undervalued.

Our share price is undervalued, remains undervalued. And we're going to execute on that share authorization as we have this past fiscal year, where we'll be disciplined on a quarter-to-quarter basis, but we will also have the ability to be opportunistic as we see dislocations in our share price. And then as we round out capital allocation, we're going to continue to invest in our beer business, as we outlined in the materials yesterday, $2 billion over the next few years. And M&A remains the last of our priorities, mainly around smaller plug-in opportunities.

Operator

Next question is coming from Chris Carey from Wells Fargo Securities.

Christopher Carey

Garth, can you just talk about the main drivers and considerations for gross margins going into fiscal '26? I fully appreciate that you had a lot of detail in the slides, but I'm really trying to parse out the impact of tariffs on this model, whether that's just the aluminum cans relative to everything else.

You also perhaps have quite a notable currency tailwind in fiscal '26 that may not help you in go-forward years. And so I'm really just trying to understand the puts and takes, specifically the impact of tariffs relative to everything else on the model in fiscal '26 and whether there are some nuances like currency that won't repeat so that we can have a better idea of how to layer this in going into fiscal '27 and fiscal '28?

Garth Hankinson

Yes. So look, let me do my best there, Chris. And if we need to follow up, we can follow up. But as the guidance that we provided yesterday, as we said, includes the impact of tariffs for our beer business. That is the impact on aluminum cans. As it relates to currency, as you know, we've talked about this multiple times that we have a multiyear layered approach to how we manage our currency.

As we entered in FY '26, we're above 70% hedged, and we've seen some actually dislocations in the U.S. peso rate here. I shouldn't say some dislocations, but some weakness, and we've taken opportunities to layer in some incremental hedges both for this year and future years. So as always, we look to sort of – we look to manage that on a year-to-year basis so that the impact isn't that material from a year-to-year perspective. We try to smooth that as best we can.

Operator

Next question today is coming from Nadine Sarwat from Bernstein.

Nadine Sarwat

I appreciate all the incremental color that was provided in the prepared remarks and the presentation. Two questions for me. You called out a tough socioeconomic environment in your prepared remarks. Can you explain exactly what you're assuming in terms of that socioeconomic environment for the next three years? Are you assuming the current situation remains status quo? Or are you baking in some improvement in the back of that?

And then secondly, on the weak depletion numbers and especially Modelo, I appreciate the commentary that you provided. Could you pull apart the factors on to what's driving that? Maybe what has changed in a little more detail? I don't know if a rank order of magnitude or trying to quantify these in any way possible. And maybe you have any incremental consumer insight on consumer type, pack type, channel? Any incremental color would be helpful.

William Newlands

Sure. So let's talk first about the Hispanic consumer because I think this is an important element. We – as you would expect, we do a fair amount of research around this consumer given that they represent roughly 50% of our overall beer business. And the fact is a lot of consumers in the Hispanic community are concerned right now, 2/3 of them are concerned about higher prices on things like food, gas and other essentials. Over half are concerned relative to immigration issues and how those impact.

A number of them are concerned about job losses in industries that have a high Latino employment base. And what does that do? That has tended to mean that the consumer has pulled back on spending on a number of categories. The single biggest one interestingly is restaurants, but a lot of other consumer goods, clothing, home choice things to do, travel. Beer is quite a way down the list, but it's certainly on the list because things like social gatherings, an area where the Hispanic consumer often consumes beer are declining today as part of these overarching concerns that they have.

Therefore, all of that has had impact on our business. As you know, Modelo is over 50% Hispanic in terms of its demographic base. So this decline in efforts to go to restaurants, to have social gatherings, things that are very much beer occasions have softened in the more recent term. And it's going to be key to watch as to how that impact continues or doesn't continue as we go forward.

Net-net, it's nonstructural. This is not – our brands and our brand health continues to be top notch. We continue to focus on what we can win at, winning the shelf, winning execution, continuing to bring interesting innovation to the table that allows us to continue to outperform the overall category. But like – as you would expect, we're going to need and want to see some improvement in the consumer brand health before we're able to correctly project how long some of these challenges are going to last. Garth, anything you want to add?

Garth Hankinson

Yes. Just on some of the macro data points, and I'll give you sort of how we're thinking about that for the forecast period that we provided details on last night. We're not expecting any material improvement over this forecast period. Some of the macro trends that we're seeing and that we're tracking are unemployment and obviously, unemployment has started to stabilize across the board, but we have seen weakness in those 4,000 calorie job sectors that have a higher impact on beer consumption.

Year-over-year, real disposable personal income reached a 2-year low in January and stayed low in February. Consumer sentiment rather, reached a 2.5-year low in March and long-term expectations from consumers isn't expected to change anytime soon. We've seen inflation rather, the expectations for inflation to not get as – to not rebound quite as quickly as we had expected and the outlook for GDP growth now is a little bit more muted than it was.

So we're not expecting any big improvements in that. As we go through calendar year 2025, we may see some of that moderate a bit and into '26, so maybe some marginal improvement. But for the forecast period, we're not expecting any material improvement in the macroeconomic conditions.

Operator

Next question today is coming from Peter Grom from UBS.

Peter Grom

So I was hoping to talk more near term and just kind of get some perspective just in terms of what's happening in terms of beer top line growth. Currently, obviously, a challenging exit rate and the guidance does seem to imply some improvement from that exit rate. So can you maybe just help us frame how we should be thinking about the guidance from here? Any considerations that we should consider as it relates to 1Q? And then just any thoughts in terms of what we should anticipate price versus volume?

William Newlands

Well, I think if you'll recall from last year, the strongest quarter that we had and frankly, that the industry had was our fiscal Q1. So while we don't make any habit, as you know, of giving quarterly guidance, certainly, the biggest overlap that we have is in this very first quarter as the business started to soften for the industry as well as for us as you progressed through the back half of last year.

So that – when you combine that with some of the socioeconomic climate issues that I've already referred to, I think you're going to see some volatility as the year goes on. Again, the key thing for us, and I know I'm repeating myself, but I think it's important to recognize, our brand health remains best of class. And in the longer run, that will continue to pay dividends for us as consumers get back to a normalized behavioral pattern.

Operator

Next question is coming from Bill Kirk from ROTH MKM.

William Kirk

So some people, including the Teamsters and maybe one of the mega brewers, they seem to be trying to drive a wedge between American beer and imported beer. Are they having any success with that in the eyes of consumers? And how much influence do you think those type of groups have over alcohol tariff policies?

William Newlands

It's an interesting question, Bill. Tough to answer some of that question. What I would say is one of the things that we're proud of as a company is our 80 years as an American company. As you know, we're – our ownership is entirely in this country, although we make most of our beer in Mexico because we have Mexican heritage brands. But we spend roughly $1 billion a year in the United States market supporting our brands.

We have many of our grains and our barleys and our corn grown in the Mountain West of the United States for inputs. I think when the overall Teamsters take a very hard look, we are very supportive of the Teamsters. I think we have brought more jobs to this marketplace than any other competitor has because of the growth of our business over time through our distributor network.

So I think as people take a real hard look at what our company is and how we have performed in the marketplace, they will recognize that we have done an exceptional job of building U.S. jobs as we've also built our business in Mexico to support those U.S. jobs.

Operator

Our next question is coming from Andrew Strelzik from BMO Capital Markets.

Andrew Strelzik

I appreciate all the detail on the guidance. Obviously, it's a very fluid environment. I guess when you just think through all the assumptions that you've made here over the next and recasting kind of the next 3 years, where do you think there's the biggest risk to your assumptions and the biggest – maybe where we might look back and say, hey, that turned out to be a little bit conservative.

William Newlands

I think the single biggest risk that we have is where the consumer is and how long their concerns last. If we had a crystal ball on that, it'd be a lot easier to make some projections because as the consumer feels better about things, that will help not only our business, but the overall category.

Believe me, we'd like to see a healthy category. That would be to everyone in our industry's benefit. And we certainly always like to see the industry succeed as we succeed. So that's the biggest variable that I think is out there is when does the consumer come around.

We're going to stay crystal clear focused on the variables that we can control, as I've talked to earlier today. But the consumer sentiment and the consumers' desire to get back out and shop and be comfortable in the socioeconomic environment is probably the single biggest variable that's tough to predict.

Operator

Next question today is coming from Gerald Pascarelli from Needham & Company.

Gerald Pascarelli

I just had a housekeeping item on the wine business. So the $41 million impact that you called out in your commentary, can you provide some detail on when you expect that to hit the operating income? Is that going to be in the first quarter of 2026? I guess that's my first question. Just any color on the cadence.

And then as we think about the cost savings, I think $100 million of the $200 million is coming out of wine. Is that going to be more pronounced – a more pronounced benefit to the operating income looking like if we had to look to 2027 or 2028, is that going to be more of a benefit when we get to 2027? So again, any color on the cadence there, I think, would be helpful.

Garth Hankinson

Yes. So the $41 million that you referenced that was called out in the prepared materials, that will kind of happen throughout the year. So just – it won't be any one big quarter where that hits, but throughout the year. And then in terms of the cost savings, we called this out in our materials, right? So it's about $100 million in total for Wine and Spirits. We're expecting about $55 million in – or in fiscal '26. So the majority of the actions that we will take to achieve that $100 million savings will occur in FY '26. It's just you won't get the full run rate of that until you move into FY '27 and then maybe a little bit into FY '28.

Operator

Next question is coming from Dara Mohsenian from Morgan Stanley.

Dara Mohsenian

So clearly, a pretty big revision in long-term beer sales growth from the 7% to 9% range to 2% to 4% in fiscal '27 and '28. So can you just give us a little more detail on how much of that is just related to the external environment and more conservatism on macros?

How much of it is pressure points maybe that are more durable on the beer category, health and wellness demographics, et cetera? And then a third bucket of market share opportunity for STZ. Just give us a sense of conceptually how much of that falls into each bucket.

And I realize this is like the eighth version of this question you've gotten on the call, but I guess the point is, we're kind of hearing from you guys, your tone is that the beer depletion slowdown, it's more driven by short-term factors. Obviously, we understand the difficult macro environment. But at the same time, you're making pretty large revisions to beer sales growth post fiscal '26, which should be significantly macro depressed based on what we're seeing. So I'm just trying to sort of bridge those 2 points and how you guys think about that conceptually, if that makes sense.

William Newlands

Yes. It totally does, Dara. Our points are we have a near-term issue as it relates to consumer sentiment. Very difficult to predict how long that will last or not. And so as we look at the fiscal year that we're in, we expect that it very well could be a significant factor throughout this fiscal year. I think the question is, when does the consumer sentiment turn around? That's the one that's very difficult to project.

But again, this is where we go back to, you have a shorter-term issue, you have a near-term issue. You don't have a brand health issue. I mean I look at brand we don't always talk about on every single call, but Pacifico. Pacifico was up 16% last year. It continues to grow and get consumer demand. It's – and I've called it out in years past, an early-stage Modelo because it's shown a similar growth profile to what Modelo did sort of a decade ago.

The punchline to that is we have strength within our brands. We have new innovation agenda items that will open up new consumer occasions and new consumers to our franchises. And we're going to continue to work on the controllables. It's very difficult for us to project some of the socioeconomic elements that are going to impact it. And it was our belief that it could be longer than we'd all anticipated. It's simply an area we can't answer, and that, therefore, is all reflected in the guidance we provided.

Operator

Next question is coming from Kaumil Gajrawala from Jefferies.

Kaumil Gajrawala

If I can just follow up on that, Bill. So many times we're hearing sort of nonstructural, nonstructural and there's a lot of macro stuff, of course. But at the same time, the long-term algorithm has changed quite a bit. And it feels like maybe some of it is structural and that could be law of large numbers. Is there may be a revision in expectations for Hispanic population growth in the United States? Just is there anything maybe bigger in there that we should be aware of that part of the calculus?

William Newlands

No, no, I don't think so. I think that when you look at lots of factors, when you look at our awareness levels versus some of the competition, when you look at our shelf positions versus some of the larger competition, we still have a lot of runway to grow. We have a lot of expansion capability of reaching using Modelo as an example, into the non-Hispanic community.

We have only been investing against the non-Hispanic community for the last several years. We have increased our amount of marketing spend. As you know, in the back half of last year, we increased our spend even though the consumer was pulling back. And we're seeing that as providing great returns to our business.

So we believe there's still a lot of opportunity for our business going forward that most of what is going on is socioeconomic issues that we believe will moderate over time. The question is, what's that time horizon? That's a bit of a difficult one to answer.

Operator

Next question is coming from Andrea Teixeira from JPMorgan.

Andrea Teixeira

So Bill or Garth, it seems that you have collected hard data to inform you on the new guidance. So I think it would be helpful if you can comment on what has happened with beer volumes in the more Hispanic ZIP codes against the general public, perhaps in the later part of the fiscal Q4. And then I definitely understand the loyalty and the demographic bonus of this cohort from covering Grupo Modelo when it was public exporting decades ago. And that strength, of course, kind of carried over to you as an importer.

Can you also tell us like how that – I mean, obviously, against the general public has shaped your information – I mean, your decision to reduce long term. And also related to that, you invested close to 9% of sales into the beer business in terms of A&P. And obviously, you have been investing that $1 billion, as you said.

So just thinking of the 8.5% that you gave as a guidance for fiscal ’26, how should we be thinking given, one, you have already gained a lot of distribution. Of course, you’re going to gain additional 10%. And how are you’re going to be, I think, shifting given that you’re becoming more general public as we go? How we should be thinking about all these dynamics?

William Newlands
Sure. So let’s try to take that in some order here. Relative to Hispanic consumer behavior, one of the things we’ve seen both factually and anecdotally is that there has been some channel shifts in what that consumer is doing. So historically, you saw overweighting to stores that were largely Hispanic consumer-based and C-stores. Both of those, we have seen some shifting into broader chain-based accounts that are larger accounts. And I think that reflects some of the concerns that we’ve talked about earlier that the Hispanic consumer is seeing across their broader life and lifestyle.

Relative to the 8.5%, we continue – keep in mind that with the growth profile that we have every year, that continues to be an increase in the amount of spend that we have put against our business. And because of the very strong cost agendas that we have, we continue to put more fuel on that fire where appropriate to continue to support our business.

We are going to continue to do exactly that. Our cost agenda, as you saw, we are expecting $200 million over the next 2.5 fiscal years based on a strong cost agenda. And we believe that some of that will get reinvested against our business to help drive future success along those lines.

But we test and we review our marketing approach, as you would expect on a quarter-by-quarter basis. But we're quite pleased that we continue to see very strong returns for the spend that we put against our beer business.

Garth Hankinson

Bill, if you don't mind, I'll just weigh in a couple more just on the marketing spend, right? I mean, as Bill just noted, we don't compromise on our marketing spend. It's a very disciplined approach. You've heard us say this before, we've got a lot of efficiencies with our media agencies in terms of the effectiveness and spend. And we will continue to target being the #1 and #2 share of voice with Modelo and Corona. And we've increased our sponsorship or our spend in – with March Madness, with soccer, with Major League Baseball and with college football. So we're not shortchanging by any means the marketing investment behind our beer brands.

Operator

Next question is coming from Carlos Laboy from HSBC.

Carlos Alberto Laboy

One interpretation of your 3-year guidance and its long-term implication is that Corona Extra is the Bud Light of 2008, just a declining aging brand with volume declines that the rest of the portfolio might not be able to offset. Can you make the case for Corona Extra as you see it evolving?

And I remember that in 2008, you were able to restabilize Corona actually where Bud Light couldn't. How are you planning to stabilize it now and return that to growth? And might that be one of the structural kind of hurdles that you need to clear here that Kaumil was maybe alluding to in an earlier question.

William Newlands

So a couple of things as it relates to Corona. First of all, I think it's important to think about Corona about the brand family. Corona Familiar is one of our strong growth players in today's market. We have introduced Corona Sunbrew this year, which we're very encouraged about in its early days. We feel that's going to reach a different consumer and provide the opportunity for improvement in that particular piece.

Remember, it's got strong brand equity and awareness. It's the #1 brand in the mind of consumers and the most loved brand in the mind of consumers in the United States. So Corona still has a very strong consumer base and consumer franchise.

Interestingly enough, it is one of our best returns against our advertising approach, very, very strong. And we're increasing that spend in this fiscal year versus what we have done in the past. So we're – we remain optimistic about Corona. And we expect that, that's going to continue to be an important part of our brand flow going forward.

Operator

Next question is coming from Filippo Falorni from Citi.

Filippo Falorni

I wanted to go back to the beer margin questions that were asked before. Just a clarification. So on Slide 14, you guys showed that you're expecting COGS inflation of low to mid-single digit through fiscal '28, including net of cost savings. So on a net basis, you still have cost inflation.

Depreciation, even though you're mitigating some of the incremental addition – capacity addition is still going up. And the volume environment is also softer. So I assume there's a little bit less fixed cost leverage, although still positive. So can you help me understand what are the offset to all these headwinds on beer margins that allow you to maintain the beer margin unchanged.

Garth Hankinson

No. I mean look, as we said earlier, there will be volume increases, which will help. There will be pricing in that 1% to 2%, which will help. Those cost initiatives will keep our inflation or will help mitigate that cost inflation and we'll manage depreciation. So that's where we feel comfortable saying we'll be in 39% to 40% operating margins. It's all of that put together.

Operator

Next question is coming from Bryan Spillane from Bank of America.

Bryan Spillane

First, Bill, Garth, thank you for putting a stake in the ground. This is not an easy environment to try to forget about forecasting next month, let alone the next few years. And so whether it's accurate or not, it's just that you put a stake in the ground, you gave us some detail, it's really helpful.

My question is more around, as we're thinking about margins in beer and for the whole enterprise actually, just structurally, is the $200 million in savings that we talked about yesterday, is most of that just a – is most of that related to the divestiture of the parts of the wine business and kind of reducing some of the stranded overhead?

And I guess what's really underneath my question is, as things evolve, should we expect there could be some opportunities to drive more efficiency and especially as hopefully, the landscape sort of becomes more clear?

Garth Hankinson

Yes, Bryan, thanks for the question. And I think I understood it. So let me try to answer it. As we said, the over $200 million of annualized savings, of that, about $100 million of that is associated with the wine business. And that comes out after the divestiture. The remainder of that really is across our corporate functions as well as some in beer. So it is a reset as we try to make sure that we've got the most capable organization with the best skills and resources and investments behind it to deliver on our strategic priorities going forward.

I think we've got a pretty good history around discipline of cost management. And so to the extent we identify areas over and above what we shared yesterday, we absolutely would execute on those. But it's a pretty – the amount of cost we're taking out is, I think it's a pretty aggressive yet very achievable amount and most of which we execute on this year.

William Newlands

So let me pile on you for once. Bryan, I think one of the things that Garth was just touching on is important. We have – first of all, we have a superb supply chain capability within our business, and we have already shown our colors around that. As we create more efficiencies over time, we invest that money behind our business to help grow the future.

That's an approach we have taken for many, many years now, and it's one that we're going to continue to take. So as our ability to improve the efficiencies in our business continues to grow, we will continue to invest that money on the future of our business.

Operator

Next question is coming from Steve Powers from Deutsche Bank.

Stephen Robert Powers

Maybe a quick one for each of you actually. Bill, similar to how you've discussed a couple of times the factors influencing demand on beer, I'd love any analogous comments you might have on the Wine and Spirits side and just how you see the various factors stacking up to inform the flat to 3% outlook that you have on the portfolio you are planning to retain.

And then Garth, maybe you could expand a little bit more detail, if possible, on just how recent results and the revised outlook on beer is influencing how you're approaching the build-out in Veracruz or any of the modular additions at the existing – to the other facilities? Just any changes that are maybe worth highlighting?

William Newlands

Sure. Starting with wine, I'll let Garth answer the second half of the question. Our thinking around the wine business relates very similar to what we've done in beer, which is this creates a wine and spirits business going forward that plays at the higher end of the business. And that ties in with the long-term premiumization trend that you see across all alcohol beverage. So we've finally gotten our portfolio sort of where we want it so that it reflects that we're playing against that premium and up sector across both segments of our business.

To give you a perspective, in the fourth quarter of last year, the retained business in wine and spirits grew 4% in depletions, which I think gives us some confidence and some excitement about what the future can look like for a much narrower but a much more focused higher-end portfolio for our wine business. That business has continued to be much stronger than what we've seen in other sectors of the wine business, which is why we're going to spend our time and energy on that subsegment of the overall wine category. Garth?

Garth Hankinson

Yes. And then just in terms of the modular approach and changes in how we're thinking about capacity, I mean, there's really nothing more to share than what was in the materials we had earlier today or last night, I should say.

We're going to continue to manage our footprint responsibly and in line with what our volume expectations are. As you've seen, we've reduced our expectations for capacity through FY '28 in the materials we shared last night. We're on pace – specifically to Veracruz, we're on pace to open that. That will be an important brewery for us as we think about the contribution that it has to the overall portfolio. But we'll be really mindful and bring on capacity when it's needed.

Operator

Our next question today is coming from Kevin Grundy from BNP Paribas.

Kevin Grundy

I wanted to come back to the investment levels in the beer business. I want to ask it from a little bit of a different angle. Garth, I think you mentioned satisfactory levels. I think looking back, the 8.5% is below the 10% levels where the company was in fiscal '20 and 2021, and you typically are in this 9% to 10% sort of range.

So I wanted to ask, everyone on the call is sympathetic to the volatility in the environment. Number one, was there any thought to kind of leaning in here, albeit weighing on margins a bit to try to accelerate top line growth, not an uncommon tact, as you guys are well aware in CPG to see companies do that when the top line is waning as it clearly is.

And then two, for both of you, should investors perceive this as kind of a philosophical reorientation, if you will, at Constellation, where there's kind of less of a bias towards top line growth and more of a bias towards margin preservation and cash flow, just kind of given what you're experiencing in the business, which would also not be uncommon either. And you might push and say it's not an either/or that's kind of a false choice, but I just would like to hear more about how you're thinking about that balance.

Garth Hankinson

So just on the marketing investment. So we feel, as I said earlier, and as Bill said as well, we feel really comfortable around our marketing investment. As we laid out at our Investor Day, our target was to be about 9%. And that's where we were in FY '25. We're going to be a little bit below that in FY '26 in terms of the forecast. But we don't limit that, right?

When we talk to our marketing teams, we ask them what they need and they tell us what they need, right? And so this is reflective of what our team thinks it needs to drive the type of performance that's included in our outlook. That being said, and Bill referenced this earlier around our cost savings agenda and how we take savings from our cost savings agenda and reinvest that in high-return opportunities within the business.

We did that last year, where in Q3 and Q4, we invested significantly more money in marketing to drive and to support our brands. So that's the discipline that we have on a year-to-year basis or a quarter-to-quarter basis. That won't change.

And the last piece I'll just say on that before I turn it over to Bill as well is, again, while the percentage is coming down, we've gotten significantly more efficient in the way that we buy media and the way that we manage our marketing spend.

William Newlands

And relative to your comment about has our approach to things changed? The answer is no. Look, 6 out of the last 8 years, we have been the #1 Circana large company CPG company in terms of growth industry. It included last calendar year despite the challenges that we saw both within our industry and to some degree, within our brands as part of that industry. But it didn't change the fact that we were the #1 large company Circana growth company last year.

We expect to continue to see both top line growth and maintaining a strong margin structure of 39% to 40%, as Garth outlined. Our expectation around that hasn't changed. We think both are important, and we're going to do our damnedest to do both of those.

Operator

Next question is coming from Robert Moskow from TD Cowen.

Robert Moskow

We're all kind of trying to fish around to figure out what the exact tariff impact is on your can costs. And it sounds like it's pretty sensitive information, so I understand. But I'm just trying to figure out if I have the building blocks right. If you spend like $900 million a year on aluminum cans and it's a 25% tariff, do I just put those 2 numbers together? Or am I just way too high on that number?

Garth Hankinson

I would say take a look at the information that we provided in the guidance that we issued last night. And I think that if you look at the top and bottom line growth rates, you can figure out what the impact is.

Robert Moskow

Well, there's a lot of other assumptions in those impacts. So what are the other assumptions? Would it be productivity?

Garth Hankinson

Robert, yes, on an absolute basis, as we disclosed in all the materials, it includes productivity, it includes cost savings. It includes inflationary pressures and so forth. But again, that is all baked into the margin assumption. Tariffs are as well. So all disclosures have been made available as made available.

Operator

Our next question is coming from Michael Lavery from Piper Sandler.

Michael Lavery

Just wanted to come back to just the capacity approach, and I recognize you've tried to adjust to match what you expect to need. But maybe help us understand the mix a little bit. It sounds like you're still adding modules besides Veracruz.

I guess maybe first, are we right to assume that the flexibility you have to ship by sea from Veracruz should at least allow for some potential savings? And if so, what's the thinking to add at all your locations as opposed to just push there? Maybe just would love to understand that a little bit better.

Garth Hankinson

Yes. I mean when we look at our brewery footprint, there's a number of things that we take into consideration. One is the size and scale of the brewery. Another is what are the capabilities of that brewery in terms of the brewery capable of producing the entirety of the portfolio and have the complexity to service the entire portfolio, or is it a brewery that's going to be a bit more specialized and run large packaging lines.

And then to your point, we also look at how do we optimize logistics costs in terms of getting product into the market most cost efficiently. So those are the things that kind of go into it. Specifically to Veracruz, while that is further south, and I know that there's been questions around what the impact that will have on logistics going forward. Keep in mind that in the overall footprint, that will be about 3 million hectoliters of the overall 55 million hectoliters. So it's a relatively small piece of the total footprint.

We're still reviewing what we – what options we have from a logistics standpoint to make that as cost effective as possible. But we're also, from a capability standpoint, treating Veracruz as a brewery that will run along production lines of high-volume SKUs and therefore, minimize the cost there and try to offset any incremental logistics costs.

Operator

Thank you. We reached the end of our question-and-answer session. And ladies and gentlemen, that does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.