Constellation Brands Inc, Investor Day 2023
2023-11-02

Presentation

Executive

Please welcome Constellation Brands Vice President, Investor Relations, Joseph Suarez.

Joseph Suarez

Good afternoon all, and welcome to Constellation Brands' 2023 Investor Day. We're excited to be here today to share insights into our company's leading performance and plans for ongoing success.

Before we get started, I invite everyone to review our forward-looking statements, which can be found on the pages of the release today and our filings.

This presentation, as usual, please remember to refer to Constellation's SEC filings for risk factors, which may impact forward-looking statements made on today's presentations. We also invite you to review our non-GAAP financial measure disclaimers.

And as a final reminder, reconciliations between the most directly comparable GAAP measures and any non-GAAP financial measures discussed during today's presentation are included in the appendix or otherwise available on the company's website at www.cbrands.com.

We have a pretty full agenda today where you'll get to hear from several of our executives and broad leadership team members about the continued growth of our iconic higher-end Beer, Wine & Spirits brands portfolio; our efforts to capitalize on emerging beverage trends through consumer-led approach to innovation; our ambitions to consistently achieve strong revenue growth and profitability; and to deliver value to you, our shareholders, by deploying capital in line with disciplined and balanced priorities; and our latest achievements and initiatives to serve as good stewards of the environment, enhance social equity and underserved communities, promote responsible beverage alcohol consumption and to continue implementing value-additive governance enhancements.

We'll also have 2 Q&A sessions, one at the halfway point and another at the end of the presentations. And we just ask that during each session, you please focus your questions on the 3 corresponding agenda items immediately preceding them.

Now before turning the presentation over to Bill, I'd like to ask you once again to please ensure your mobile devices are silenced. Thank you, once more, for joining us. And now here is Bill.

William Newlands

Thank you, Joe, and welcome to all of you to our 2023 Investor Day. It's great to be here with you in New York again and to have many of you joining us via the webcast, as I'm sure you know.

I am Bill Newlands, the CEO of Constellation Brands. And since Joe covered the main disclaimers, I only have one final announcement. Without a doubt in my mind, we have the best portfolio in our industry. So for those of you who are of legal drinking age, which probably is most of you, but you haven't tried one of our great products, I invite you to experience them after our presentations today so that you can all appreciate why our leading brands have so much momentum in the marketplace and why we have so much excitement around our newer innovations.

And with that really important message out of the way, let's get started. Our last company-wide Investor Day was in 2016. So we are eager to share with you today why our company is in even better shape now than it was back then and the incredible future that we still see ahead supported by our strategic foundation. We'll provide a comprehensive review of these topics this afternoon. But if I were to distill it to a handful of key highlights, here's what we want to convey to you today.

First, our objectives for our Beer business remain unchanged: 7% to 9% net sales growth; 39% to 40% operating margin over the medium term; and most importantly, we believe those will remain best-in-class growth and profitability metrics, not only for the beer category or even for the beverage alcohol industry but across all of CPG.

Second, we anticipate sequential improvement in the top line profitability of our Wine & Spirits business. And we believe that starting next fiscal year, we will accelerate in our path toward reaching 1% to 3% net sales growth and 25% to 26% operating margins.

This strong outlook for both our businesses, along with our thorough plans to continue managing the rest of our P&L with efficacy and discipline, gives us confidence to add an objective to deliver double-digit diluted EPS growth as part of our medium-term algorithm.

Fourth, in addition, we're expecting to see a step-up in the growth rate of our operating cash flow, which, net of our organic investments that mainly support the growth of our Beer business, should enable us to deliver between $10 billion and $12 billion in free cash flow in total from fiscal '24 to fiscal '28.

Fifth, more broadly, we are confident that our existing capital allocation priorities will continue to strike an appropriate balance to deliver value, and as such, those priorities remain unchanged. But as we are quickly approaching our target net leverage ratio, we have an incremental $2 billion share repurchase authorization from our Board, which I will later discuss in more detail.

And last but certainly not least, we aim to deliver on our medium-term outlook while working to address pressing environmental and societal needs, which are important to our shareholders, our communities, our consumers and our employees. And we firmly believe our ESG strategy will continue to enable us to both create and protect value, while delivering meaningful positive impacts for people and the planet.

Now with those 6 points in mind, let's shift gears to how our strategic initiatives have built a solid foundation for us to deliver against those highlights. And we'll provide some incremental details of what you can expect from Constellation Brands going forward.

At the core of our strategy is our consumer obsession, which drives our focus on building brands that people love and on developing innovations that are consumer-led. Our strong performance against these objectives have supported a decade-long status as a CPG growth leader and lifted us to the #1 spot in several of those years. But our leadership team is fully aligned that delivering growth is not enough to create value.

So over the last few years, we have consistently delivered against disciplined and balanced capital allocation priorities that have led us to significantly reduce our leverage, that has returned nearly $6 billion in dividends and share repurchases to our shareholders and to make significant investments in growing capacity to support the growth of our Beer business.

To reinforce these efforts, our governance structure as well as our approach to environmental and social stewardship have also evolved. All our shareholders now have equal economic and voting rights on a per-share basis. The composition of our Board has shifted in line with a comprehensive refreshment and enhancement process. And our corporate social responsibility efforts are more aligned with key issues related to our business, such as water stewardship, where we have made incredible progress against our target.

All together, these core tenets of our strategy have enabled us to deliver total shareholder returns in excess of both the S&P 500 and the S&P Food & Beverage indices, whether you look at it over the longer term or the near term.

Let's face it without a doubt, our Beer business has been the main driver of our strong growth. Our results are truly best-in-class, having delivered over 50 consecutive quarters of depletion growth. This remarkable achievement has not been without its challenges. We have faced skepticism and unforeseen changes from external dynamics since early on, but the conviction and execution of our Beer team has overcome these questions and concerns. And in less than a decade span shown on this slide, not only delivered overall incredible growth, but also established our core brands as category leaders.

By fiscal '19, Modelo Especial had reached the size of Corona Extra and the #2 spot in the high end. Corona Extra remains the #3 in the high end as well as a top 10 brand across all beer in the U.S. while Pacifico achieved the 10 million case milestone and reached a top 20 spot in the high end.

Since then, the depletion growth of our portfolio has remained relatively in line at about an 8% CAGR with our Beer team continuing to prove skeptics wrong, all while navigating unprecedented headwinds. I mean, come on, folks, who could have foreseen that a global pandemic would be called a virus with the same name as our most iconic brand. Our Board would have love it if I brought that one up.

But our team didn't miss a beat and that same brand just got stronger with Corona Extra climbing up 2 spots to become a top 5 brand in the U.S. only to be outdone by Modelo Especial reaching the #1 spot across the entire market. And of course, Pacifico has almost doubled in size and is now a top 10 high-end brand.

Just as importantly, Modelo Especial achieved a similar share gain in the last 4.5 years as it did in the prior 8 while Corona Extra also continued to gain share over that more recent time frame. And Pacifico share actually doubled. So it's safe to say right now that the core brands in our Beer portfolio are stronger than ever.

In our Wine & Spirits business, our portfolio has undergone a significant transformation over the last several years. We shifted from being mainly exposed to the mainstream segment of their respective categories to being primarily focused on the higher end. This journey included integrating and growing brands that are now among the largest in our higher-end offerings as well as more recent mainstream brand divestitures that accelerated the pivot in the mix of the portfolio.

We acquired Casa Noble a bit before my time, over 9 years ago now, but we then quickly followed with the acquisitions of Meiomi, which is now nearly the same size as Woodbridge on a net sales perspective, and with The Prisoner Wine Company and High West, which are now, respectively, our largest fine wine and our largest craft spirit brand.

More recently, with the acquisition of My Favorite Neighbor, which is delivering incredibly strong dollar sales growth in tracked channels, very much in line with the CAGRs of all the other acquisitions.

So a pretty good track record of acquiring and growing higher-end Wine & Spirits brands since fiscal '19, which Robert and the team will cover in more detail.

As I mentioned earlier, we then accelerated the transformation of the portfolio more recently, with the divestiture of approximately 30 lower-priced brands to Gallo and a smaller set of brands to The Wine Group. And while some of these brands had scale and a few were in the premium segment, they were not aligned with our growth and strategic ambitions.

Ultimately, we believe we now have a very robust portfolio with exciting craft spirits and fine wine brands that still have plenty of scale and distribution runway as well as large and leading premium wine brands and a small set of mainstream wine and spirits brands that we're actively working to revitalize. In fact, we've doubled the number of fine wine and craft spirits brands in our portfolio since fiscal '19, which now represents 23% of our net sales and continue to deliver double-digit growth in tracked channels.

We have refined our premium line portfolio to larger brands that are still delivering very solid growth despite some headwinds in the category. And we reduced our mainstream Wine & Spirits portfolio to about 1/10 of the brands that we had in fiscal '19. This has helped us to mitigate the impact of declines in mainstream wine and certain segments of mainstream spirits.

Additionally, we're making great progress expanding the avenues of growth for this business. We've materially increased sales coming from our direct-to-consumer channels and grown our international sales as we continue to target large metro markets, which Robert and his team will also discuss with you in more detail.

In addition to our focus on delivering growth from our core higher-end Beer, Wine & Spirits brands, we also have brought innovative products to market aligned with consumer-led trends, more specifically, with a clear emphasis on betterment and flavor offerings since fiscal '19. Since then, we have significantly expanded our range in both subsegments with compelling extensions to our core brands that are resonating with consumers. This is clearly visible in the significant compounded growth from innovation for both our businesses. And we still see great opportunity ahead for our innovation efforts with enhanced capabilities and processes, which I will briefly elaborate on shortly, and Mallika will cover in depth during her presentation.

In fiscal '20, shortly after my transition into the CEO seat, we also introduced our current disciplined and balanced capital allocation priorities. And as I stated earlier, we have consistently delivered against these over the past 4.5 years: strengthening our balance sheet; delivering significant cash returns to shareholders; continuing to invest in organic growth opportunities, particularly in our Beer business; and executing small acquisitions, primarily to close gaps in our Wine & Spirits portfolio.

Our leadership team is proud of our track record against these priorities, and we remain committed to maintaining a disciplined financial foundation while balancing investments and additional returns.

As with capital allocation, we also adopted a slightly different approach to our environmental and social initiatives as of fiscal ’20 that sought to more strategically align our efforts on these matters with our business objectives, bringing together all of our activities in these areas under a member of our executive team, formalizing oversight of our goals and efforts under our Board committee and more transparently disclosing targets and reporting our performance against them in line with recognized frameworks.

Mike will share more about the importance of this transition for our business and our stakeholders. But let me say, I am very proud of what we have achieved while recognizing there’s still work to be done.

As noted earlier, we also recently introduced several changes that better aligned our corporate governance profile with the expectation of our shareholders, including normalizing the voting power and economic ownership of all shareholders, changes to the composition of our Board of Directors and other governance matters shareholders identified as being important to our owners.

So thank you, once again, to everyone who supported these enhancements. We continue to believe they are an important shift for our company.

So as you have seen, Constellation Brands is undoubtedly in even better shape now than when we last met for our last Investor Day. Our Beer, Wine & Spirits portfolios are stronger, including a wider range of innovative products. And we have delivered on our capital allocation priorities while also enhancing our ESG approach and profile.

As we look ahead, our path forward remains centered around our consumer obsession, driving us to continue to build brands and develop consumer-led innovations that people love and still supported by an empowered franchise with discipline and balanced capital allocation priorities and approach to ESG aligned with our business objectives, which together, will keep us delivering our value proposition for our shareholders, consumers, employees, communities and broader stakeholders.

And on that note, let's discuss the incredible future we still see ahead built on our solid financial and strategic foundation. Over the last 2 years, we've taken a significant step forward to develop an even deeper understanding of where our consumers are heading.

Mallika's team has engaged with over 300,000 legal drinking age consumers and mapped over 10,000 different consumption occasions, while also studying the next phase of 4 key consumer-led macro trends that we've been following closely for a long time: premiumization, which we expect to continue over the greater emphasis on cultural credibility; uniqueness, which is about calibrating products to meet different needs across different consumer segments; positive impact, which plays and interplays with betterment from a mental and communal perspective; and channel fluidity with experiences shifting from transactional to also enabling discovery.

We expect the combination of all that work to further enhance our go-forward approach to how we position our products with consumers, including new product launches, as well as how we reach consumers through both traditional and digital channels.

With that enriched perspective on the consumer, we're even more confident that our Beer portfolio will continue to deliver 7% to 9% annual net sales growth, mainly driven by strong volume uplifts to meet demand for our brands. We also expect operating margins for the business to return to our medium-term average of 39% to 40% as we continue to benefit from that top line growth while delivering incremental efficiencies and as inflationary headwinds begin to subside.

Ultimately, we expect our Beer business to generate significant amounts of cash, which we intend to partly reinvest in growing capacity expansions to meet the rising consumer demand and support the continuing growth of that business. Jim Sabia and his team will share a lot more today about the building blocks that underpin these expectations for our Beer business.

Similarly, Robert and his team will dive more deeply into the strategy and outlook for our Wine & Spirits business. But at a high level, supported by the premiumization and channel fluidity macro trends just discussed, we expect our Wine & Spirits business to deliver sequential improvements as it continues to shift toward an even greater share of global omnichannel and higher-end sales, ultimately, supporting an acceleration in its net sales growth to 1% to 3% annually and lifting its operating margins to 25% to 26%.

Turning to innovation. Just as we have augmented our methodology to gather consumer insights, we have also enhanced our approach to innovation. We have new R&D facilities across both businesses to continue developing exciting, innovative products including liquids pushing the boundaries of traditional offerings with patented technologies, such as our latest extension to the Modelo family, Aguas Frescas, which I admit is a favorite of mine, but let me move on, which we have done extremely well with in the initial test market in Las Vegas.

And today, we're publicly sharing for the first time Shyft, our new flavor-changing product, which will be part of our new emerging brands group that will have a more focused, but longer testing approach than our brand extensions. Mallika will cover these areas in greater detail right after my presentation.

From a capital allocation perspective, as noted earlier, our priorities remain consistent. First, we will continue to target an approximately 3x net leverage ratio, which we expect to reach next fiscal year. And our dividend payout will remain roughly at 30%.

Second, we intend to invest $4 billion in additional growing capacity to support the growth of our Beer business. And we have an incremental $2 billion authorization from our Board to repurchase shares.

And lastly, we will continue to evaluate any M&A opportunities with discipline and rigor. Garth will add more to that on this crucial topic later on today.

Similarly, our ESG focus areas are unchanged and we'll work to deliver against our targets, including our new water stewardship goal of restoring 5 billion gallons of water withdrawals from fiscal '23 to fiscal '25, which is nearly 5x the amount of our initial target as we already exceeded our prior goal largely due to projects in our Beer business. Mike will talk about our ESG targets and our efforts to achieve these objectives as part of his presentation.

Now to conclude. Based on the path forward we have outlined for you today, if I were to start with the companies that are part of the S&P 500 and narrow them down to ones that offer at least our same top line growth, diluted EPS growth, dividend payout ratio based on the next 12-month consensus and then focus on those that are also in sectors more directly tied to consumers, there are only 7 other companies that meet these criteria. And of those, 6 carry higher multiples than Constellation Brands.

So at the risk of stating the obvious, we strongly believe that our company should command a higher value, specifically given our track record of delivering on our commitments and our compelling path forward.

With that, I will now hand it over to the other members of our leadership team presenting today to share with you in more detail the various subjects I've noted that they would address. But as my parting comment, I want to assure you that this entire leadership team remains fully dedicated to continuing to meet our objectives and to deliver value for you, our shareholders, with each of us bringing different yet complementary perspectives and expertise as well as diverse backgrounds and deep experience, but all, all, sharing a strong commitment to win in the marketplace.

Thank you. And with that, I would like to introduce Mallika Monteiro, our Chief Growth and Strategy Officer. Mallika?

Mallika Monteiro

Thank you, Bill. Good afternoon, everyone. It's great to be here with all of you. I'm Mallika Monteiro, and I lead our growth strategy and digital efforts.

As Bill has said, Constellation Brands is built for growth. We have a strong core portfolio with significant runway for expansion. We're delivering disciplined and focused innovation that's driving growth for our business by reaching new consumers of legal drinking age. And we're investing in our future to ensure our capabilities meet our growth ambitions.

Building on the strategic overview that Bill just provided, I'm here to talk about the areas of focus and investment that are fundamental to our approach to driving long-term growth. The 3 topics I'll cover are: first, the culture of consumer obsession we've built at Constellation Brands; second, the investments we're making in tools and capabilities to reach our LDA consumer and to run our business more effectively; and finally, our approach to winning with innovation across the portfolio, including the new way we're building emerging brands.

But let's start with the consumer. Constellation is committed to being consumer obsessed. And as a note, any time we talk about consumers or drinkers, we always mean legal drinking age adults. Over the last 5 years, we've invested in consumer insights, data analytics, ways of working to ensure our people bring deep understanding and empathy for our consumers to our decisions, our brand plans and our products.

Here are a few facts to bring to life what that means. Over the last 2 years, we've spoken with over 300,000 consumers. We're growing our ability to own our own consumer data as privacy regulations shift, building a first-party consumer data platform with 2.5 million consumers who've opted in to receive our marketing with ambition to build to 10 million consumers over the medium term.

Through our media partner, we have access to 240 million adult consumer records across 12,000 attributes, demographics, consumer passion points, media and purchase behavior, location data, all of which informs our media strategy and local programming. We've built a database of 10,000 occasions to create a proprietary map of consumer demand that informs our portfolio strategy and brand positioning. And we get out into the market.

We talk to distributors, to retailers, to bartenders to get deeper intel on culture, consumer behavior, on-premise trends and customer expectations. Just last month, this management team spent time with Hispanic and Gen Z consumers, part of our ongoing program to get our people out of conference rooms and offices and into our core markets to understand drinking behavior and brand choice.

We have a deep understanding of luxury wine consumers and their drinking and spending habits so that we can build the capabilities, experiences and products in line with our ambition to be a high-end innovative luxury wine business.

And of course, we have doubled down on our understanding of our core Hispanic consumer. The demographic strength of Hispanic consumers is well known. 60% of total U.S. population growth over the last 5 years has come from Hispanic consumers. They control $2 trillion in purchasing power and now represents the largest affluent subgroup in the U.S. amongst Gen Z. We project that by 2030, 20% of legal drinking age in the U.S. will be Hispanic. That's 50 million drinkers nationally.

Hispanics are a powerful consumer group in alcohol, over-indexing across every alcohol type versus other population groups in the U.S. with a strong preference and affinity for beer, our beer. They drive almost half of total dollar contribution to our Beer portfolio and 1/3 of Constellation's Beer dollar growth today. And so Hispanic consumers are the single most important consumer group for our business.

But we know they're not a monolith who think, act and behave alike. Generation, country of origin, U.S. geographic location, acculturation, primary language, gender all play a role in what Hispanic consumers are looking for and how they interact with brands. And so our consumer work gets to the context and nuance across this diverse landscape of Hispanic consumers. Almost 20% of our unique consumer data represents Hispanic consumers. 1/4 of our consumer conversations and in-market connection are with Hispanic consumers.

Everything we do across our Mexican imports portfolio is pressure tested with Hispanic consumers to ensure we don't stray from authenticity and from consumer expectations of our brands.

And of course, general market consumers continue to be a significant growth opportunity for our beer brands. We've invested to make our Mexican imports resonate with them. The core human insights behind the campaigns for our brands, from Modelo's Mark of A Fighter to Corona's La Vida Más Fina, connect with consumers from all walks of life, enabling us to unlock growth beyond our core Hispanic consumer. As a result, while non-Hispanics account for just over half of Constellation's beer dollars, they drive 70% of our beer growth.

All of this and more forms the foundation of a proprietary knowledge base of consumer understanding and insight that powers our business.

But data and analytics aren't enough. We've built a culture of consumer obsession to take our consumer understanding and empathy and translate it into action, building a consumer-first mentality across our business and especially within our commercial and innovation teams.

For example, our innovation work on our Mexican imports brand is rooted in our understanding of the flavor and liquid experiences Hispanic consumers are looking for. We spent time in their homes, at backyard barbecues, on the streets of Mexico to create ideas that are distinctive in the U.S. and also authentic to our brands. That's how Modelo Aguas Frescas came about. The liquid is created using nitro technology to mimic the creamy authentic taste of nonalcoholic Aguas Frescas in Mexico. The entire product proposition is grounded in our knowledge of what Hispanic consumers tell us they are missing in the flavor category.

And our approach is working. Modelo Aguas Frescas is now the #1 new FMB multipack in its test market of Las Vegas. It connects with our core Hispanic consumer. With a Hispanic consumer index of 150, Modelo Aguas Frescas far outpaces the top 5 FMBs in the U.S.

And this consumer obsession is driving results in our business. Corona is the best-loved brand in the U.S. beer category, enabling us to stretch its equity into brand extensions that have delivered almost $3 billion in Circana dollar sales since 2018.

Our consumer-focused Spanish language and English language advertising, sports sponsorships and retail programming have enabled Modelo to grow household penetration by 18% over the last 3 years. Modelo has the highest household penetration and the #1 repeat rate in beer among Hispanic consumers.

And The Prisoner Wine Company has grown net sales 260% since we acquired the brand. 40% of the brand's net sales now come from innovation beyond the core Red Blend.

Our consumer obsession positions us in our efforts to drive long-term growth and it's the foundation for the tools and capabilities we're building to reach our consumer and to run our business more effectively. The capabilities I'm going to touch on today are innovation and R&D, brand building and media and digital business acceleration.

Over the last 5 years, we've invested almost $550 million in R&D, talent and technical capabilities, both in Mexico and domestically, to meet the innovation ambitions in both business units, including the innovation and technical development center at the brewery in Nava, a; new flavor R&D lab on the Woodbridge campus to meet our ready-to-serve and flavored innovation needs in the U.S.; and new production, packaging and flavor capabilities, including nitro and flavor blending.

These new capabilities have enabled us to accelerate our innovation agenda with distinctive new products like Modelo Aguas Frescas, Modelo Chelada, High West barrel-aged cocktails, Mi Campo ready-to-serve and lime-friendly Corona can.

Innovation has driven almost 30% of Constellation Circana dollar growth over the last 5 years, driving $3.4 billion in Circana sales during that time period. I'll touch more on our innovation strategy and approach in a moment.

Let's talk next, though, about brand building and media. Our approach to brand building is centered on consumers' creativity and consistency. It starts with smart, relevant consumer-focused brand positioning with an ownable point of view and distinctiveness in the marketplace. And it extends to breakthrough brand activation and communication across the marketing mix, bringing our brands to life where our consumers are with the right message and activation at the right time, personalized for their needs, interests and motivations from live sports, to streaming video, from distillery and winery experiences to digital and out-of-home.

And we're consistent. Unlike so many other brands, we don't change our advertising every year. The strength of our marketing to connect to our consumers, to tell stories only we can tell and to bring our brands to life in ways that break through the clutter is evident. In beer, our ads consistently outperform our competitors on brand relevance, breakthrough and preference.

The strength of our creative and consistent approach translates directly to profitable growth. Across Beer, Wine & Spirits, we invest approximately 9% of net sales in marketing, the majority of that investment in media. And while consumers today have more content choices than ever before, we believe we're building a highly effective and impactful digital and media ecosystem that brings our brands to life in disruptive and breakthrough ways.

Our media investment across the Beer imports portfolio drove a media ROI of $2.50, delivering almost $750 million in profit. And in Wine & Spirits, we sharpened our marketing model, evolving away from heavy investment in traditional media in favor of bespoke marketing in line with how higher-end brands are built with DTC and hospitality, brand experiences and partnerships taking center stage and video supporting our premium brands.

Finally, let's discuss our more recent investments in digital business acceleration. When COVID hit in 2020, we had the advantage of being early investors in building digital commerce capabilities and establishing retail relationships when the channel was still underdeveloped in alcohol. As a result, we established category leadership early, securing category captaincies with emerging digitally native retailers, pioneering bev alc retail media and performance marketing with third-party marketplaces such as Instacart and evolving our Shopper-First Shelf program and expanding it into e-commerce and omnichannel retail. And that continues to pay off to this day.

In the last 52 weeks, Constellation continues to be the leader in e-commerce, growing ahead of the beverage alcohol category and gaining share ahead of our competitors. Two years ago, we moved with urgency to build on this leadership in digital to transform our business around our 3D digital strategy: to unlock demand, drive disruption and deliver excellence.

With $60 million to $80 million in planned investment in technology, data and analytics, talent and new ways of working, we are focused on becoming a true digitally driven organization.

To date, our priority has been the Beer business with focus in procurement, supply chain and marketing, in particular. The goal of these investments is to build demand and to ensure we get the right beer to the right place at the right time for the right cost.

Here are some examples of the results we've driven so far. In procurement, data transparency and automation of category spend and contract data into real-time dashboards has delivered approximately $60 million in real savings to date, well ahead of run rate expectations for the program.

In end-to-end supply chain, we've sustainably improved OTIF impacting 300,000 to 500,000 cases delivered on time weekly from Modelo and Pacifico. We're on track to deliver $0.02 per case annual savings as a result of removing inefficiency and waste in the system.

And in marketing, we've leveraged advertising partnerships with campaigns tailored to consumer demand segments that have delivered almost 8% positive sales lift for Pacifico. We're scaling to Corona and Modelo this year.

Our investments in digital business acceleration are delivering both top line growth and margin enhancement while also supporting working capital efficiency and smarter ways of working for our people.

Switching gears then to my final topic, our approach to innovation and emerging segments and brands. Shifting consumer behavior is disrupting beverage alcohol in meaningful ways as consumers shift between segments seamlessly and as macro trends like betterment, moderation, flavor are driving new choices for consumers. We see the opportunity to recruit new drinkers, expand occasions and enter new segments as critical to driving long-term growth.

And our investments in innovation and emerging segments is working. Modelo Oro is the #1 new brand launched nationally this year. Modelo Chelada Sandia Picante is the #1 new single-serve FMB SKU in the entire beer category. And Kim Crawford Illuminate and Meiomi Bright are on the forefront of the betterment wine space, growing over 2.5x the low-alc core varietal wine segment driving almost 1/4 of that segment's growth and recruiting new incremental drinkers.

Dos Hombres Mezcal, Archer Roose sustainable wine and HOP WTR non-alc sparkling water, examples of companies in our corporate ventures portfolio, are each outgrowing their segment and disrupting the category.

I mentioned earlier, Constellation has a strong track record in innovation. And innovation has driven almost 30% of our growth in the last 5 years, delivering almost $3.4 billion in Circana sales over that time period. We are one of the only companies across beverage alcohol, driving sustained and consistent growth across both our core and our innovation. And our beer innovation is more efficient than our large beer competitors, generating more dollars per SKU.

Our pursuit of consumer growth opportunities is built against an ecosystem of integrated growth levers: building through organic innovation when the opportunity to create new distinctive consumer-driven ideas is clear and immediate; incubating new brands we create through a deliberate disciplined strategy designed to build new brands at scale sustainably; investing ahead of trends and consumer adoption through our corporate ventures arm to enter new segments where consumers are going; and buying smaller differentiated, high-momentum brands to tuck into our portfolio at the high end.

For today, I'm going to focus on organic innovation and our approach to emerging brands. Our innovation approach across both business units is strategic and consistent. As always, we start with the consumer, concentrating on macro trends and ideas to meet consumer opportunities. We're focused on high-growth market segments where there's upside to our portfolio. In Beer, that's flavor and betterment. In Wine & Spirits, it's ready-to-serve, betterment and disruptive flavor profiles. We also introduced new varietals extending into white spaces for our portfolio, new varietals like The Prisoner Cabernet, Meiomi Cabernet and betterment extension, Kim Crawford Illuminate, are outgrowing the category and gaining share.

We strongly believe in extending the shoulders of our powerful brands to recruit new drinkers and expand occasions. In Beer, our brand extension have contributed almost 20x the innovation growth of our big beer competitors.

We create liquids that are authentic, unique and, as those of you in this room will taste later, delicious. We continue to be focused, testing to learn in markets before we scale our ideas so that we get to the best big ideas.

And we're disciplined. Dialing in market execution and marketing to grow our innovation while ensuring our core gets focused. At the same time, we bring targeted and strategic price and pack architecture to meet our consumers' needs and expand occasions. Across our entire import beer portfolio, we generate nearly 5x the sales per SKU compared to our top 2 beer suppliers. Jim will talk about this more in a moment.

The end result of all of this is sustainable incremental growth for us and for our distributor and retail partners. And the threshold for the incrementality our new products are driving continues to be well ahead of the 30% to 40% industry average.

As we look to the future though, we know it's not enough to innovate extension of our core portfolio of brands. We must also build new-to-the-world ideas to go after consumer opportunities, particularly in beer, that our Mexican imports simply can't pursue.

We've seen though that new-to-the-world brands require patience, careful incubation and a commitment to learning and adapting in order to succeed long term. So we're evolving the highly effective scale playbook we use in the Beer business that works so well for our big brands, but doesn't quite fit young brands to create a new emerging brands team.

Our mission is to build the next generation of brands for our portfolio ready for consumers because we've tested, learned and adapted through commercial experience and experimentation. The way we'll do this is built on 3 pillars.

The first is ownership and accountability with dedicated resources and funding a team staffed with deep marketing, commercial sales and distributor management experience. The second is patience to learn and adapt over multiple years. This isn't about [sailing] fast, instead it's about starting small. Learning and adapting with discipline, optimizing before expanding so that we maximize the success as we pursue big-scale ideas. And the final pillar is a targeted approach to test market selection. We'll launch our new brands in smaller markets to limit disruption on the core business and to work closely with teams on the ground to test our ideas.

And we have an incredible exciting lineup of new brands we're getting ready to launch, including the first introduction this fall of Shyft. Shyft is a first-of-its-kind, patented, flavor-shifting FMB. We believe there's nothing like it in the marketplace and I'm so excited for you to get to try it this afternoon.

Everything in development for emerging brands is envisioned to meet our ambition of being disruptive, of bringing unique and market-leading liquids and experiences to consumers and carving out distinct market position for Constellation in line with our strategy.

As I wrap up, there are 3 things I'd like to leave you with. First, Constellation is consumer obsessed. Our understanding of the consumer drives everything we do. And it is the foundation that underpins the strength of our brands and our conviction in our long-term growth.

Second, we're investing in building the capabilities and tools to enhance how effectively and efficiently we reach our consumers and run our business. These investments are directly driving impact in the business from industry-leading media ROI to margin-enhancing savings.

And finally, later today you'll get a chance to taste the many high-end new innovations we've launched across the portfolio. They're examples of our consumer-centric, focused and disciplined approach to innovation and new segments that are driving critical growth for Constellation and are built against our strategy to enter new segments, to win new consumers while always ensuring that our core continues to thrive.

I'm excited to talk to you during the Q&A. Thank you.

[Presentation]

Executive

Please welcome President, Beer Division, Jim Sabia.

James Sabia

It's great to be here with you today to discuss our Beer business. As I've spoken to many of you over the years, we remain very confident in our ability to continue driving great results for our business. Today, I will share with you our growth drivers and imperatives that support our go-forward vision. In addition, Bill Renspie, our Chief Customer Officer; John Kester, SVP, Operations Services; and Tom McCorry, SVP, Beer Finance, will provide more details about our business.

So let's begin. We've been speaking about the high end for many years and this narrative continues to get stronger year after year. Ten years ago when we acquired the full rights to these brands, only 33% of the industry revenue was in the high end. Today, over 60% of industry revenue is in this segment. During this time, while the low end has consistently declined, the high end has grown 11% on a compounding annual growth rate basis, has represented all of the growth in the entire industry. And our portfolio has accounted for a majority of that growth.

More importantly, over the last 10 years, we've grown over 50% and have gone from a 7% share to over a 16% share. Within the high end, we've gone from a 21% share to over a 27% share. And through the first 9 months of this year, our trends continue to accelerate with 2.1 share points added to our industry share and 2.8 share points added to our high-end share, which is the largest gap we've ever had from our next closest competitor. And this strong growth is happening all over the country.

Let's take a look at this slide. Corona Extra and Modelo Especial are achieving strong growth and are leading brands across many markets. For example, Corona is the #1 brand in Miami, Orlando and New York City and the #2 brand in San Francisco and the #3 brand in 6 additional markets.

And 10 years ago, Modelo Especial was not even a top 10 brand and now it's the #1 brand in 13 major markets and is bigger than Bud Light, Miller Lite, Coors Light and Budweiser in LAs combined. In several DMAs, we have the #1 and #2 brands with Modelo and Corona. And in some markets like San Francisco, we have 3 of the top 4 brands with Pacifico coming in at #4 and growing.

And speaking of Modelo Especial, how about this? A high-end beer is now the #1 beer in dollars in the U.S. over the last 26 weeks. Modelo Especial is a $9 share of the total industry, which is 1.3 share points higher than our next competitor. In the last 4 weeks ending 10/1, we have increased our industry share to 9.4, 1.8 share points higher than our next competitor. And now it has a $14 share in the high end.

As the previous slide showed, Modelo Especial is a #1 or #2 in 17 of the 60 tracked markets across the country. So the important takeaway here is that there's still a lot of opportunity for this brand throughout the country.

And speaking about opportunity, the country continues to premiumize. Currently, 19 states in the U.S. have a high-end share of over 60. And 11 states, shaded with the light blue, are rapidly moving to the high end and have added 3-plus share points over the last 2 years. But this clearly tells us where this industry is going.

Let's talk about our brands and their distinct role in this growing part of the industry. Over the years, we've told you about our fundamental growth drivers for our business. These drivers remain the same today.

Distribution. This is, by far, our #1 driver. The demand for our brands is at an all-time high, which allows us to gain incremental distribution and space in many retailers throughout the entire country.

The retailers are very aware of the velocity per point of distribution our brands generate and are allocating more space across our entire portfolio. Bill Renspie will unpack more details in his presentation that will outline why we are so confident in delivering our distribution goals for many years to come.

Demographics, we continue to benefit from tailwinds from legal drink and age growth. Hispanic consumers are growing at a 2x rate of the general population and there's larger demand for all of our brands with a broader consumer base than ever before. Innovation, we're focused on developing unique distinct liquids that will be line extensions for our current brands or new-to-the-world introductions.

We are currently working on a number of initiatives that I'm very excited about, some of which you may taste today in Happy Hour and some of which we hear about in the near future. In addition, we'll focus on price pack architecture and provide new packages that provide the right product in the right channel, in the right format at the right price point. Whether that's 7-ounce bottles, 8-ounce cans or 12-ounce chelates, we will continue to be disciplined and thoughtful in our approach.

As Bill Newlands shared, we plan to add at least 100 million cases over the next 5 years and the path to achieve these objectives are through the execution of our strategic growth imperatives, which are the following: we will drive growth with the core; we'll build focused approach to flavors and we accelerate growth in betterment.

Let's discuss each of these imperatives in the role they will play in hitting 100 million cases over the next five years. For Modelo Especial, we plan to grow mid- to high single digits through increasing distribution, household penetration and buy rates with our core Hispanic consumers of Mexican heritage and those Hispanic consumers in the east of other Latin origins; increased our aided and unaided awareness with the general market consumers through building on our powerful fighting spirit advertising, our #1 media share of voice and new sponsorships and new packages.

For Corona, we plan to grow low single digits through maintaining our cultural relevancy with advertising [that resonates] with all consumers. Unlocking growth with cans and price pack architecture and continue to have a strong media presence and investments in sponsorships. And our strategy for Pacifico is to continue to build on the momentum in the West with increased media, sponsorships, new packages and increased its distribution in off and on premise in markets outside of California.

Our second imperative is to build focused approach with flavors. Younger consumers between the ages of 25 to 34 over-index both flavored beer and [AABs.] We have three brands currently participating in this space with Chelada being our workhorse. We approach this segment with a discipline. You won't see a cycling in and out of flavors and brands year-over-year that drives complexity and execution of risk. We want a tight portfolio of flavors that can contribute to the growth and unlock new occasions.

So we started the Chelada franchise 13 years ago with one SKU, a 24-ounce can. As the brand has grown, we have added more flavors to get a total of six 24-ounce cans. But however, the past two years, we have introduced Chelada in 12-ounce cans with Limon y Sal, Modelo Chelada and a variety pack. This is a great example of using price pack architecture to expand our consumer base and channels.

In addition, we're seeing great growth in our general market consumer, which represents 50% of the mix and our female consumer, which represents 49% of the mix. And our new flavor, Sandia, watermelon, that we introduced last year and [Fresa,] strawberry that we are introducing in FY '25 are flavors that have more appeal to all consumers, general market and Hispanic.

In addition, this past year, we tested Modelo Aguas Frescas in Las Vegas. This brand concept was inspired by the traditional jugs of Agua Frescas that are found in Mexico and Hispanic stores in Western U.S. Liquid contains nitrogen versus CO2, which provides a smoother mouthfeel, easy-to-drink benefit. I encourage you to try one at Happy Hour. This spring, we are expanding this brand across the country into the states that represent 80% of the Chelada business.

Our third imperative is to accelerate growth in betterment. We currently have four brands that play in a betterment space. Corona Light was first brought into the U.S. in the late 1980s. Our strategy on Corona Light is to focus on the eastern half of the country where the brand development index is high. Corona Premier is our lead high-end late player, supported on a national level with resources behind it to build consumer demand. We need to continue to educate consumers up. This is a light beer with only 90 calories and 3 grams of carbohydrates. We have updated the packaging and next year will be a key year to accelerate its velocity.

Now this year, built off the equities of Especial, we introduced Modelo Oro nationally with two SKUs, a 12-pack can and a 24-ounce can. We're very pleased with its first year performance and its velocity for point of distribution. Among brands introduced nationally this year, Oro is the #1 new brand, and we plan on expanding with 18 packs and 24 pack cans nationally in calendar year 2024.

We also introduced Corona [Non-alc] this fiscal year and its #1 share gain in the [non-alc] segment during Q2. Team has done a great job on developing a strong liquid, and we are excited about its future potential in this emerging [a spec] segment.

In addition to our three growth imperatives, there are three areas that are essential for our business, and remain a critical focus in the future. Focus on disciplined portfolio, effective and enhanced marketing and optimizing our supply chain. First, we have the most focused and profitable portfolio in the industry. As you can see, we currently have five brand families and about 150 SKUs, which results in the $54 million per SKU, which is almost 5x better than our competitors.

Our focus, prioritization and efficiency are a key factor in our success that our gold network distributors and retail partners truly appreciate. This also allows us to work closely with our distributors on a monthly basis of [one] business objectives against our most critical brands and SKUs month-over-month – will speak to this with the Shopper-First Shelf strategy.

As I mentioned earlier, price pack architecture. We will continue to be disciplined with SKU extensions, thoughtfully introducing new SKUs, driving distribution on existing ones and achieving new price points that drive incremental volume. Due to the strength of our brands, we don't and we won't introduce a whole bunch of new brands and packages just to hit an annual number.

Our marketing investment strategy over the years has been based on our marketing mix modeling. This model allows us to make the most efficient and effective investments by brand to understand the ROI and the marginal ROI on every dollar we spend. Within marketing, we will continue building on these models with an enhanced emphasis on digital media optimization that leverages data and technology to be smarter, faster and reach the right consumer at the right time with the right message.

We will bring continuous improvement approach to the already strong foundation we have built across our marketing efforts, continuing to invest in what we know work today while also future-proofing through new and innovative media channels, platforms and tactics. And for example, we recently transitioned to a new media agency, which will also enhance the efficiency and effectiveness across all of our media purchases.

Some of these efficiencies and digital investments will allow us to take our previous marketing spend of 9% to 10% of net sales and effectively target 9% by optimizing our process, increasing spending on the right brands and increasing our return on investment. And everything we're doing across market we are adapting to the change in consumer and marketplace dynamics, embracing new methodologies to fuel growth and strengthening our performance and capabilities.

Before I bring up the next set of leaders, I want to underscore a few key points that I hope stand out as you leave here today and think about our future business. We have been growing depletions for 54 straight quarters, 13.5 years of growth quarter after quarter. Yes, we know that, that was in the past and today is about the next 5 years and beyond. But however, due to our analytical approach to our business, we understand what drives our business and what drags our business.

We understand the volume that is generated by new points of distribution by package by region. We understand our pricing elasticities. We understand the focus and discipline as required from a financial and operational perspective to optimize our business. We understand the power of our advertising message and media spend in the volume these activities generate. And we understand the importance of providing our distributors and retailers healthy, powerful brands that drive their profitability.

So now I'd like to introduce you to our leaders across sales, operations and finance to take you through our next Sections. Bill Renspie is our Chief Customer Officer. Bill has been a strategic sales leader at CBI over the last 20-plus years. John Kester, our Senior Vice President of Operations Services, has been with us almost 10 years. He's a long time operations veteran in the beer business. And Tom McCorry, our Senior Vice President of Finance, who has also been with CBI for 20 years across beers, wine and spirits.

I'll see you all later during Q&A. Thank you.

[Presentation]

Operator

Please welcome Chief Customer Officer, Beer Division, Bill Renspie.

Bill Renspie

Thank you. Good afternoon, and thanks for being here. What a great lead in what you just saw is just some small snippets of our distributors. We had our big distributor sales meeting not too long ago. We asked them in their own words what they thought about our portfolio. And what you heard there and what you would see if you sat through all of them was a consistent message, accelerating growth and accelerating momentum.

We have the best portfolio in the industry. A healthy growing core, which is very unique and proven consumer-led innovation. And what you're seeing there is an increased share of mind and heart, okay? That's the distributors that are behind our brands. And why that's important to you and what you should take away that means significant more investment in focus and resources against our portfolio, which translates into growth.

Now we're seeing record levels of merchandising support and we'll cover our increasing space and distribution gains in a moment. And the remainder of this year, we'll benefit from increased space and distribution and merchandising. This spring, we'll see some of the most influential retailers really, really lean into our business. I can't talk about it now because they haven't communicated to their organizations. But Modelo Especial will be one of the biggest beneficiaries of that.

Now if you look at what's happening recently in the beer industry, it's not very healthy. This is our message out and direction to our distributors, but it's also the message that we're getting back from retailers. When you see, there's only growth coming from two areas. Mainly imports, which is up about two share and a little bit FMBs, which is kind of balanced out with the decline in seltzer, and these areas really need more space and distribution. And really, it's imports, which has gained over two share and we're going to be the most and the biggest beneficiary of that growth.

Now I want to talk a little bit about [domestic lights] because right now, there's tons and tons of chatter about that every day, somebody is writing something or saying something. The main thing is that domestic light and really the low end in general is shrinking. Consumers continue to trade up. We're seeing that accelerate. So in fact, when you look at the big three domestic lights and you put them all together, they're down. They're down almost 2% in dollars and down 6% in volume. Even when you add in the top Yuengling brand and the top [Paps] brand, it's still down. So that shows you that the consumer is not moving back into that they're moving away.

Now I was told that I can't reference the rearranging, the deck chairs, so I'll say this. The consumers are moving into the high end even more so every year, and we're poised to be the beneficiary of that growth.

Now we've been consistently gaining significant share, and those share gains are accelerating. Our 28-week average, we're almost at [two], we've gained [1.91] over the last 28 weeks. And to put that into reference, if you annualize that out just in — ***indiscernible*** —, it's over $870 million. If you look at most recently, the last two months, we've been averaging over [2.] It's actually [2.34] share gain. When you annualize that out, it's over $1 billion. That shows you the potential in the magnitude of our growth.

Now as Jim talked about our top sales initiatives are focused on space and distribution. And what's important here is we have a proven approach utilizing advanced analytics and advanced modeling. It's all centered around precise targets and exact execution. And the results of our approach has led to consistent and great plan attainment, you see here over the last three years where I almost had 102% of plant attainment. And this will continue to be one of the main drivers of our growth.

When it comes to goal setting, we set aggressive goals based on the dynamics of each individual market. Now in more developed markets where we have less distribution opportunities, but still significant runway, our focus is on increasing space, specifically adequate days on hand to make sure the growing brands and SKUs, predominantly our brands and SKUs are always in stock so that everybody in the chain can maximize sales.

This is our key message and direction to our partners and it's to grow our space ahead of our volume trends. Now in less developed areas, our continued distribution gains is our main focus and continues to be the main driver of our growth. You heard about Shopper-First Shelf while Shopper for Shelf is our proven approach to growing the category by optimizing shelf flow, space and assortment based on how the consumer shops for beer. Now this has proven to deliver a sales lift, not only for our portfolio, but for the category as a whole. And this becomes more important and more relied on as we experience a rapid increase in the introduction of new brands and SKUs.

Now our goal of high-end leadership has naturally broadened into category leadership. We are gaining more and more influence and category partnerships with key retailers across the country. Over the past five years, we've made significant gains securing formal category captain roles in over half of the top 25 retailers. And we have significant and increasing influence in the other half. This past spring, we increased our space over 13%, but we're also very influential and may be more influential with key independent and specifically within key independent Hispanic accounts.

Our last fiscal year was our most productive year when it comes to space gains. On average, we grew our share of the [Coor] over two share points. We hit a high watermark surpassing over 17,000 total Shopper-First Shelf sets. And I'm really happy to say we're well on our way to exceeding last year's impact this year. On average, we've grown our share of the Coor over three share points this year, and we'll finish the year with over 21,000 total Shopper-First shelf sets.

Now a lot of interest in what's happening this fall and this spring. While we saw that this past fall, accounts that represent about 20% of our business are executing full resets, which is kind of off the normal schedule. And accounts that represent about 60% of our business did plug-and-play significant changes, but more plug-and-play. These are underway right now, we expect most of them to be completed by the end of the fourth quarter. And here's what's important. We, Constellation Brands will be the major beneficiary of the incremental space. It will be ahead of our growth in the 8% to 10% range and net-net, we will gain the most incremental points of distribution, [more or not].

Now I'll give you a little color on that. In one of the large grocery chains, where we have access to the total shelf data because we're partners with them, we increased our space over 25%. And we gained over 6,000 incremental points of distribution. And to put that in reference, the next top five suppliers combined netted out a loss of over 9,000 placements. So you can see we're gaining space and net-net, we're gaining the most distribution.

Now this spring, we expect the vast majority of our business to execute full resets. And again, we expect to be the major beneficiary of the incremental space in that 10% to 15% increase range, which will be in line or ahead of our growth. And net-net, we will be the biggest gainer of incremental points of distribution.

Now our distribution runway. It's determined on the account base, our market development, our current distribution levels and our velocity. It's a little bit art and science. You don't want to move too fast because it becomes inefficient and revolving door SKUs. You don't want to move too slow, you leave sales on the table and it's ineffective. We think, and we've proven we found the sweet spot.

Now our 5-year outlook. We're targeting over 500,000 new points of distribution, and that's just our proven core today, the proven high-velocity items. When you add in our line extensions, the innovation we have already announced and the innovation of the pipeline, it will be significantly bigger than that.

Now we have growth opportunities across all markets, but the areas with the strong velocities and the significant distribution upside will be our largest areas of growth and focus. Texas, the mid-South and the Southeast will represent about 1/3 of our distribution growth. And of our total growth, just under half the total will come from Modelo Especial, which shows you the huge opportunity and upside for what is now the #1 beer in the U.S. And for those of you wondering about Chelada and Pacifico, Chelada will make up about 25% of our distribution gains and Pacifico about 15%.

So in closing, consumer change will continue and most likely accelerate. Constellation and our portfolio is best positioned in the industry hands down. We have a healthy growing core. We have proven consumer-led innovation, a deep pipeline of brands and ideas that are always moving forward with the consumer. We continue to have the best advertising and programming, again, always moving with where the consumer is going.

We have the most aggressive aligned plans and goals. We have a proven approach to expanding space and distribution. We have the gold network. They're more focused on the Constellation portfolio than ever before, and that means a lot. Make no mistake, the Constellation portfolio is the engine for sustainable, profitable growth in the industry, growth today and growth well into the future.

Thank you.

[Presentation]

Operator

Please welcome Senior Vice President, Operations Services, John Kester.

John Kester

Good afternoon, everyone. For everyone who's followed us over the last 10 years, that video in this slide will look very familiar. From the early days of one brewery making half of our own beer through one furnace glass plant, they're not purchasing any of our own materials. We've come a long way in our shift from importer to brewer. And with the purchase of Obregon, we enabled an end-to-end supply chain capable of planning, sourcing, making and shipping all of our own beer. And while we continue to add capacity to support our continued growth, we also continue to develop capabilities in other areas of our supply chain.

With that said, we're entering the next phase of our transformation. The transformation from builder to operator, meaning that we're looking for ways to increase efficiency across our supply chain. We're investing in areas beyond hard assets. And to those points, Tom will share the financial implications as we monetize the benefits of tuning our supply chain.

From an expansion standpoint, you heard Jim and Bill talk about how gains in areas like space and distribution will drive our future growth and the need for incremental capacity. And while some of these numbers are new, you will see the benefits of our previously discussed 3 million hectoliters of productivity initiatives unlocked in the last year.

Specifically, we've adjusted our capacity plans through FY '28 from the prior expectation of 25 million to 30 million hectoliters to the current expectation through FY '28 of 22 million hectoliters. Our new plan delivers in FY '24 and '25, 10 million hectoliters of incremental capacity with half of it Obregon and the other half in the Nava ABA facility specifically optimized to support Chelada growth. In FY '26 and '27, have 6 million hectoliters of incremental capacity with half of it coming from the [Newbury] and Veracruz and the other half due to continued enhancements in our other breweries. And then in FY '28, another incremental 6 million hectoliters with a similar approach to FY '26 and '27.

So broadly, beyond FY '24, we expect at least half of our capacity increases that come from our new brewery at Veracruz, and we're gauging the most efficient and economical way to utilize that facility to provide the best network solution. The result will be a typical annual utilization rate of 75% with peak at about 85%, which is well within industry norms. So again, to be clear, the adjustment in our expansion plans as a result of the incremental capacity already delivered through productivity gains as well as the work underway to deliver more.

So shifting gears a bit. You heard Mallika talk about our investment in digital tools and the supply chain has been an early adopter to advance our capabilities. And we're really excited about the work, and we expect to pay back the investment in just three years. But what's even more exciting are the future unlocks that these tools can deliver beyond the base business case.

The Digital Tools business case is driven by the foundation of sending improved planning signals throughout the end-to-end supply chain. But once up and running, we expect other unlocks such as inventory reductions, both cycle stock and safety stock. Improvement in on-time and in-full shipments so that we improve out of stocks, both at the distributor level and also on retail shelves. And lastly, value creation from a supplier standpoint by optimizing their utilization and inventory levels.

As I previously mentioned, our transformation has shifted from builder to operator. And on this slide, you'll see some important areas of that transformation and how value will be created. First of all, from a procurement standpoint, this is the first area that we implemented Digital Tools and Advanced Analytics. And the benefit is we've delivered roughly $60 million worth of savings over the last year. But I think what's more important is the fact that we can run the same playbook up against about $1 billion worth of addressable spend over the next three years.

From the logistics and distribution standpoint, beyond implementing innovative truckload and warehouse strategies, this is the second area that we're implementing digital tools. The results not only driving value, but also improving our service levels to our distributors.

From a planning standpoint, our proof of concept of the tool suggests a forecast accuracy improvement of 15% to 20% at a distributor SKU level. And the earlier turns across both planning and also logistics delivered a $0.02 per case benefit and just this year alone across our network. But most important are the cross-functional projects. These are high-value projects that span the end-to-end supply chain. A couple of examples would be double stacking pallets on railcars for shipments to the United States. And enabling that by converting wood pallets to plastic pallets so that we can minimize and reduce damage.

And then finally, retiring our 50-foot railcar fleet and replacing it with a 60-foot high cube feet – fleet, excuse me, which is no small task, given the fact that we used 75,000 railcars in a year, which makes us the largest box car user in the western half of the United States.

So in closing, this slide represents the future of our supply chain. And while I would say things like quality and sustainability and resiliency are important, they're table stakes for world-class supply chain. Our ongoing transformation is squarely aligned to supporting consumer demand through operations and expansion, while unlocking through savings through an ambitious cost savings agenda to fuel growth. At the center is our growth target, enabled by a highly capable team equipped with digital tools. And at the end of the day, our mandate is clear, right beer, right place, right time at the right cost.

Thank you. And now I'd like to bring up Tom McCorry.

Tom McCorry

Thank you, John. Good afternoon, everyone. It's my pleasure to be here today to translate the strategies that Jim and Bill and John laid out for you today into our medium-term financial outlook for our business, which covers the period from FY ’24 to FY ’26.

Now as you heard from each one of them, our business is strong. And as we prepare ourselves for the next phase of growth, we’re confident really in our ability to – in the strength of our brands and our ability to consistently deliver net sales in the 7% to 9% range over the medium term. In our ability to deliver sustainable operating margins at an average of 39% or better over the medium term with meaningful progress on margin expansion in the coming year and in our ability to generate free cash flow conversion at a consistent or better rate than we have historically.

Now if we start with net sales. Our growth algorithm has not changed. We expect to deliver the 7% to 9% net sales growth, primarily driven by sustainable volume increases from continued growth in our core brands, propelled mainly by distribution gains on Modelo Especial and Pacifico as well as velocity gains across the portfolio. We expect these distribution gains and the velocities associated with those gains to represent about 40% to 50% of our growth with innovation and demographics, representing the balance.

Our pricing algorithm remains the same as well. We expect to realize pricing benefits of 1% to 2% per year, which is reflected in our net sales range. And just to remind everybody, we analyze pricing opportunities at the brand, market and SKU level, so not every SKU and every market will see a price increase. But on average, we expect to realize pricing benefits of 1% to 2% per year.

Now these pricing decisions that we make are aligned with our deep understanding of our brand elasticities as well as the economic circumstances of different consumers across the U.S. And to that point, in FY ’22 and in FY ’23, we were able to realize price increases outside of our normal targets because of broader inflationary environment across all of consumer goods, including the beer category. That supported that outsized uplift. However, we’re seeing right now a more normalized return – or sorry, a return to more normalized elasticities, which really supports our 1% to 2% annual targets.

If I turn to margins. Historically, we've been able to sustain our best-in-class operating profit margins based on a simple algorithm where the benefits of pricing, volume growth and resulting fixed cost absorption benefits along with cost savings and efficiency initiatives would generally offset low single-digit cost inflation with marketing and SG&A as a percentage of sales remaining in specific ranges to support our growth.

Now you all know that we faced outsized inflation in FY '23 and FY '24. That's two years of double-digit inflation on material costs, which has had a significant impact on our margins despite record price realization and robust cost savings delivery. In addition, more recently, we've been building capacity to support the growth of our business as well as provide a little bit more redundancy and flexibility across the network, that incremental depreciation is also having an impact on our operating margins.

Now as you can see in the chart, there's been years historically, when we've exceeded our range due to the headwinds that supported the outperformance. And it's because of that, we have confidence in our ability to recover our margins over the medium term and expect the trajectory of our margins to improve throughout the next fiscal years, and it's driven by several different factors, which I'll go into in more detail.

Now as John discussed, we have opportunities to continue to get cost out of our end-to-end supply chain through cost savings initiatives and efficiency initiatives. And we're investing behind them, both enabling technologies and processes, and we believe that we will be able to deliver at least $300 million of savings through FY '28. As we look forward, over the medium term, we expect low single-digit net inflation, net inclusive of the savings benefits that I outlined before.

Now the low single-digit net inflation is driven by a shift towards more normalized inflationary dynamics that should reduce the outsized material, logistics and labor cost headwinds that we've seen over the last couple of years, favorable supplier and contract management across materials and logistics cost categories, favorable commodities costs supported by our robust hedging program, cost reductions resulting from enhancements to our integrated planning processes and cost efficiencies like the implementation of reusable plastic pallets and the conversion from 50-foot to 60-foot railcars.

We're still expecting some additional depreciation as we continue to add incremental capacity across the network with the expansions of Obregon and the new brewery at Veracruz, representing the lion's share. With this, we expect total annual depreciation to be in the range of 3.5% to 4% of net sales on average over the medium term.

And we continue to gain efficiencies from the balance of our P&L. As Jim discussed, we continue to focus our marketing dollars against the brands that represent the highest growth opportunities. We're driving efficiencies and marketing through engagement with a new media agency, which we believe will drive efficiency in our media buying as well as improve our mix between linear TV, social and digital advertising. We have investments behind DBA marketing, which is going to help us improve our geographic and demographic targeting. And through vendor and contract management for nonworking media, we're targeting reductions in agency and production fees.

So looking forward, after the divestiture of the Crafts business, which had a disproportional amount of investment relative to net sales and as a result of the efficiencies that I just outlined, we're now targeting marketing spend to be approximately 9% of net sales.

And from an SG&A perspective, we continue to take the same disciplined approach we always had, prioritizing investments to drive growth and unlock value across the business. We continue to increase our investments in areas like category management, supply chain optimization and digital enablement. We make these investments because we believe that these types of investments will allow us to drive higher productivity from our commercial and our administrative teams. So as a result, we expect to gain some leverage on SG&A. And so our SG&A target spend is 4% to 5% of net sales over the medium term.

So just to recap on margins. We're confident in our ability to return our operating margin to 39% to 40% on average over the medium term. And this is based on our billings continuing to grow in line with our depletions over the coming years, driving significant volume growth and fixed cost absorption benefits. Pricing will deliver 1% to 2% to the top line. We also expect COGS net inflation to be low single digits, reflected market-based input cost inflation, partially offset by the $300 million of cost savings and cost efficiencies that I just discussed. Marketing is targeted at approximately 9% of net sales, reflecting the efficiencies, the efficiency initiatives I outlined as well as the craft beer divestiture. And finally, we expect to gain leverage on SG&A as we drive productivity gains resulting in targeted spend of 4% to 5% of net sales. So all in all, by next fiscal year, we anticipate to at least have more than offset the incremental margin pressures we've been facing this fiscal year.

Now if we move on to capital spend, we expect to spend $4 billion in fiscal year '24 through '28 on beer capital expenditures to support anticipated growth, primarily expansions at Obregon and the new brewery in Veracruz. Looking back, we previously provided capital spend guidance of $5 billion to $5.5 billion to deliver 25 million to 30 million hectoliters of capacity expansion.

But because of the outstanding work of our brewing teams, we were able to realize approximately 3 million hectoliters of increased brewing capacity between Nava and Obregon and as a result of these efficiency projects in FY '23. So we now expect to deliver 22 million hectoliters from capital investment, add that to the 3 million hectoliters from last year's productivity gains, which we continue to work on, and we believe that there's further benefits from additional operational productivity initiatives in front of us. So these gains and the ongoing efforts that informed – have informed our decision to no longer pursue the next modular expansion at the Nava Brewery in the next five years.

So as a result, we will deliver a total of at least 25 million hectoliters of capacity at a cost of approximately $1 billion less than what we previously guided. This is a perfect example of a relentless pursuit of efficiency as we continue our transition from brewery builders to brewery operators.

So as I mentioned at the start of my presentation, we're confident in our ability to generate strong growth, profitability and free cash flow conversion. Our high single-digit sustainable net sales growth, combined with our optimized and best-in-class operating margins, generate significant incremental operating profit. We have confidence in our ability to convert these earnings into free cash flow at a consistent or better than historical trends.

Thank you very much for your time.

Question and Answer

Executive
We will now begin our first Q&A panel with President and Chief Executive Officer, Bill Newlands; EVP Chief Growth Strategy and Digital Officer, Mallika Monteiro; and President, Beer division, Jim Sabia.

Dara Mohsenian
Jim, can you help us understand the growth opportunity in the Modelo brand between the non-Hispanic and Hispanic consumer and how you plan to go after expanding household penetration among the non-Hispanic consumer and perhaps if the forward growth

is different between the two cohorts versus the last few years and how you think about that?

James Sabia

Yes, Dara. So as you all know, Modelo, as I mentioned, in California, how big it is, it started out West. Really did a great job out West getting the distribution, the velocity of the consumer. Over the years, one of the benefits we've had is our national advertising campaigns. Years ago, we used to do a lot of local advertising in these markets. But now we're advertising nationally. So we're talking to consumers in the middle of the country, in the east part of the country as well as the consumers out West. So with that, we're getting more distribution. Our advertising campaign, the fighting spirit is really resonating, right?

We used to only advertising Spanish language media. About seven years ago, we started English language and the fighting spirit campaign has been really effective. We've had some sponsorships that have helped us, right? So these are all the things we're doing to get the general market consumer.

If you think about the East Coast, there's a lot of Hispanics that are the origins are not from Mexico, whether it's Puerto Rico or Cuba, Venezuela. We're talking to those consumers more to in Spanish language. So our share of voice, we have the #1 share of voice in English language and Spanish language with Modelo Especial.

And then we talk about distribution and the velocity per point. So we have about 14 SKUs of Modelo. And we have, on an average, 5.6 SKUs on average in retail. So we think there's a lot of upside. Naturally, in California, it's going to be over indexed. But you go all the way East, you go even here in New York, in Miami, Corona is still bigger than Modelo Especial. So there's still so much opportunity, the awareness, especially the unaided awareness, which is when you ask consumers, when you think about beer, what do you think about, unaided awareness for Modelo is low. It's getting better and better and better.

And one of the things that's helping us dramatically is becoming the #1 beer in America, right? All the media, we got all [the earned media we] have really, really helped consumers outside of the core Modelo franchise out West to really understand, well, what is this brand? What brand is this, #1 beer in America, I really haven't had it.

And in terms of draft, that's one of the biggest opportunities we have. We're the fifth largest draft handle right now, #1 beer in America, fifth largest draft handle. Even in New York City, Blue Moon has 3,000 –, we have less than 1,000. So there's just so much opportunity on-premise, off-premise with this brand, including all the above-the-line advertising to really talk to the consumer about who we are as a brand.

Dara Mohsenian

Can I slip one more in? Mallika, just the 300,000 consumers that you've interviewed over the last few years, maybe if you can give us some perspective on the insights that – and their desires today versus maybe a few years ago and how that's changed? And also the younger LDA consumer, how that might be different than the older consumer?

Mallika Monteiro

Yes, absolutely. One of the reasons we talk to consumers in such depth and across such a vast array of demographics and background is to get a perspective on where the category is going, how consumers are thinking about brands and purchase behavior. And what we're seeing at a macro level trends like moderation and betterment and flavor really taking hold in general and then particularly with that younger consumer.

I think of it as expanding the pie rather than shrinking it as consumers add products like Corona non-ALC or the hot water that I see some of you drinking to their repertoire. It's – Robert really likes that. To their repertoires, it's expanding occasions, it's adding new occasions. And I think that's really exciting for high-end portfolio like ours.

And then, of course, we pay really close attention to Hispanic consumers to make sure that our brands continue to be authentic, are connecting to them in ways that speak to who they are and what they're looking for from brands, but are also authentic to our brands. And we're paying attention to making sure that, that is – that continues to be consistent as we evolve marketing and as we innovate.

Executive

All right. We have a question from the other side.

Analyst

Just two quick questions. Jim, when you look at the shape of Pacifico and kind of stack it on top of the shape of Modelo going back, any clarity, any thoughts on like can Pacifico, 10, 15 years from now be just as big as Modelo just like Modelo became just as big as Corona? So I'd love your perspective on that. And then just on the [shift] product, can you explain kind of what it is? And is the technology applicable to the other segments of the portfolio, like wine, spirits, nice to have a pinot turn into a [cab. Get deeper to the night.]

James Sabia

So Nick, with Pacifico, it started out West, again, in California. But interestingly enough, in California, where Modelo started with Hispanic consumers, Pacifico started with general market consumers. It looked very different than Modelo. What we're seeing now is that the Hispanic consumer in California is starting to really pick up Pacifico. So we're really getting an outsized growth in the state of California.

We're up in a lot of markets across the country. I think it's close to like 47 markets this past first two quarters. What we're doing, though, we have a very deliberate strategy, as Bill Renspie talked about. As we move East, we are moving with a very precise targeting of what states, what retailers and ensuring that we have the velocity per point, we're not going to throw a bunch of SKUs into Texas or New York or Florida. We're really looking at the brand development index as we move from west to east, where does it belong, how many SKUs. We're starting out in California right now. We started with Corona, having a door, then Modelo had a blue door, now we're getting yellow doors of Pacifico. And the thing about Pacifico is the positioning we have, this lifestyle, and if you think about that color of yellow and you guys see it at retail when we merchandise it.

So to answer your question on the growth potential of Pacifico, we believe in 10, 15 years, to your point, it's not going to happen in the next three to five years. But in 10 to 15 years with the right strategy, with the right advertising, making sure drafts another point of focus against us, it's the #2 priority we have besides Modelo Especial, we really believe there's a lot of upside on brand Pacifico.

Mallika Monteiro

— ***indiscernible*** — Nick, we want you to buy the pinot and the [cab], not in one product. But what's exciting about the way we've built [Shift], we went back to looking at the flavor category. And it is at retailers to see if [sameness,] if everyone is doing the same thing. What's the next strawberry? What's the next coconut? What's the next mango? We knew that if we were bringing a product to market, we wanted it to be distinctive. We wanted it to bring consumers something they haven't seen before. It has to taste fantastic, and we think it does. And the way in which it's built really lends itself to a sweet and citrus style product.

So when you drink it today, you'll get both, you'll get a citrus and you'll get a fruit and that continues to shift as you consume the product. When we tested it with consumers, we didn't tell them what to expect. And what was amazing to us because I didn't really believe the R&D scientists when they told us they could do this. Consumers played back that shift to us unprompted, which is why we're really excited about that liquid.

Executive

The one in the middle, Robert.

Robert Ottenstein

Robert Ottenstein, Evercore. You threw out a number on women on one of the brands, it went a little bit too fast, but beer has generally not done a good job attracting female drinkers. Corona has kind of distinguished itself that way. Can you talk about what your mix is right now, male, female in terms of the beer portfolio and what you're doing to attract more women drinkers?

James Sabia

Yes, Robert, the brand we threw out there, sorry, I was too quick there was Chelada, right? We looked at – was surprised to us over the last couple of years. We've seen 50% of the mix be general market, right? This brand started, like I said, 13 years ago, a 24-ounce SKU out West, where it's a very traditional Mexican brand. However, with the styles we've made now with the flavors of watermelon and strawberry, we're seeing more general market consumers pick it up.

In addition, with this 12-ounce variety pack and Limon y Sal and Modelo, it's almost 25% of the mix right now, the 12-ounce, 12 pack. So we're getting to think about a 24-ounce can usually, that's a [C-store package]. You get – buy, it's cold, you drink it. Now people are buying 12 packs. And we're getting distribution in the FMB space, so we're really starting to talk to the more general market consumer.

And with the female consumer, because of the profile of the liquid, and it's easy to drink. It's only 3.5% alcohol, easy to drink. You saw it on the advertising. We're showing a female make the product. So that's where we're really attracted to talking with that consumer. I'll give to a quick overview on what we're doing with the female. It depends – by brand, quite frankly. To your point, Corona has a higher index where Corona Light has a higher index, but if you saw some of the Modelo advertising — ***indiscernible*** —, we used a grandmother and a daughter, right? So what we're purposely targeting females in our advertising now that to build on that.

Mallika Monteiro

Yes. One of the things that I'm excited about that Constellation is doing personally is representing women in really authentic railways in our work. it's not women who are just serving the product who are just looking good while they're walking around with the tray of beer. Women in our ads are protagonists. They're showing up in real natural ways, and I personally find that exciting. And I think that's what's true as the women we talk to across our beer business play back to us as well.

Analyst

Thinking about the geographic opportunity within the U.S., you highlighted the South and Central as some of the areas where you have a lot of distribution opportunities. Maybe can you talk about from a market share standpoint or opportunity in those states relative to the high end, high share states like California?

And then from a channel standpoint, obviously, on-premise, you historically have been underpenetrated there. So what's the opportunity there? And how that the channels where you feel like you have an opportunity.

James Sabia

So in – so we think about Modelo on a national level, right, we're about [9]. California were [19,] right? So we think there's a lot of opportunity going to Texas, Florida, that part of the country with Modelo. But when you think about our portfolio, CBI right? CBI or in the – or high end, share is on a country – CBI on an industry is [19], high end in California – I'm sorry, CBI, you get these numbers correct. CBI as an industry is in [19], California with [35], right?

So as you see the growth we have and the shares we have – we're gaining like two share points in California almost every week, right? So you're seeing that. But we're starting to move east where Texas and Florida and C stores and all the price pack architecture. So there's a lot of opportunity. The brand really, like I said earlier, it was really developed out West and now it's really moving East as Pacifico was developed. Corona really was our first national brand where in New York and Miami, it's still #1. Modelo is #2, but it's still number one. In terms of on-premise, it's a critical, critical channel for us.

And one of the reasons why it's so critical is that we know that when consumers go into a bar, the very first thing they look at is draft, right? So you go into a bar, you look at draft because the benefit of that is that it gives you top of mind awareness, right? Unless you have a brand in your head that you want to buy, like Corona has a lot of that. [I take a Corona]. But it lets you to have the brand in your mind, you're not going to go over and look down and see what they have in the well down there. So draft is a critical part. So as we do more and more with the on-premise channel, it's going to help our brands, especially brands like Pacifico, especially brands like Oro that aren't really well known that really don't have the big, big national advertising, we're really using that channel as awareness and sampling.

Analyst

I have a question on innovation. Over the last five years, you talked about 30% of your growth being driven from innovation. And now you're looking to see anywhere from 20% to 40%. So could you help frame for us how your pipeline of innovation may look in the next five years versus what it looked like before you kind of shared a lot with us today. But do you expect it to be more skewed towards product versus package?

And then it sounds like you're leaning in on new-to-world innovation. So I would imagine a greater portion of that mix will come from new to world innovation versus extending your core. So touch on that, if you could. And then in the context of all of this, what about contribution to profitability? When you're continuing to innovate, a lot of your top line growth is coming from that? How does that contribute to the bottom line?

Mallika Monteiro

So we've been really pleased with how well our beer – our innovation playbook in general has been working to drive that 30% of — ***indiscernible*** — growth that we've seen over the last five years. And that playbook is really built on a handful of things that we are really good at. That depth of understanding of the consumer, what they're looking for, where they're going, that allows us to bet on the right high-growth segments and the right consumer macro trends. We feel really good about the liquids we create and the appeal they have to consumers what's in those bottles and cans really matters, and we're driving that quality.

And then we have best-in-class execution really at the top of our game, making sure we're focused and disciplined, managing cannibalization so that our new ideas are incremental to our business and attracting new drinkers. And that's the playbook, we'll continue to use going forward.

That 20% to 40% that you quoted is a mix of both innovation, brand extensions in some new to the world as well as packs because we see runway in the things that we've already brought to market. Modelo Oro, as an example, in year one of its national launch, only two SKUs in market. We're bringing new SKUs beyond that. Modelo – expand new flavors on Chelada. So extensions are still a large part of what we do. And then we see price pack architecture as being really important to allow us to attract new drinkers, meet consumers' needs as they think about what they're looking for on a channel basis and drive greater channel penetration.

On emerging brands, we have a slow, disciplined process. We don't want to throw things at the wall to see what sticks. We want to make sure that we're measuring in market, really understanding the product proposition that the liquid delivers that we're bringing new and distinctive things to market, not just following everyone else. And so we'll have a cadence to how we do that, Shift being the first one. It launched about a month ago.

A lot of our emerging brands are focused in the flavored space, where we see upside to the beer portfolio. And so as we think about profitability of those products, it's really tied to how the Chelada come into the business. We don't want to be accretive to the beer P&L. And so we're being very careful about how we think about how those products are created the pricing strategy behind them and how we think about channels.

Analyst

There was some commentary around spring resets that was quite constructive. Can you just expand on that? Are you expecting that to drive acceleration beyond your typical algorithm, number one?

Number two, do you see this increasing your penetration rates? Is this becoming an accelerant for your business, the share shifts that have gone on with the category and some of the benefits that you're accruing as a result? So any expansion on that would be helpful.

Executive

Chris, as Bill Renspie said, we're going to pick up 21,000 Shopper-First shelf resets. And that's been really working for us as the most we've ever had. We also laid out 500 million new points of distribution over 5 years on our…

Executive

— ***indiscernible*** — 500,000. 500 million — ***indiscernible*** —

Executive

I said 500 million. — ***indiscernible*** — 500,000 So what's really good too for us — ***in-***

discernible — this price pack architecture. We talked about Chelada, right? We talked about Chelada being 24-ounce can only, then we have 12-ounce cans. That's going to drive more, right? So Bill talked about and we have good – really good growth in the fall, but outsized in the spring, right? So that's really going to help us.

Because you remember the slide, the $54 million per SKU versus [10 or 11 versus] our competition, retailers know that, right? They know that our SKUs to drive velocity, they drive revenue. And in this space, as you all know, you can't buy shelf space, you have to earn it. And we think that's what's happening with Modelo Especial. Even with – we have Oro or now with more SKUs. And when our master brands like Modelo, right, for example, are really, really healthy, it helps us with our Fresca. It helps us with Chelada. It helps us with Oro because we have our master brand that's advertising, #1 share of voice, and it helps us get into the cold boxes. Because you got to get into cold box, 94% of beer is sold into cold box, and it's a critical spot. Bill and his team are doing a great job on getting more and more and more distribution. So time will tell what that does to our algorithm in terms of all the new spring sets that Bill talked about in terms of our brand.

Analyst

— *indiscernible* — from Bernstein. I'd like to come back to innovation and how you balance line extensions versus new world. How do you pick which is more suitable when you're going after that new occasion or that consumer? And related to that, as you're doing line extensions, how do you then think about protecting the brand equity of the mother brand, especially given how concentrated your portfolio is?

Mallika Monteiro

Yes, it's a really critical question. As we think about going after consumer opportunity, we really believe that smartly and in a disciplined way, extending our brand is, in many ways, the first choice. We can draft off the equity that the brand has in the marketplace.

We can build off of the marketing investment so that we're more efficient with how we support innovation. Modelo – is a great example of that. It builds off of what consumers already know and expect from Modelo.

Now when we think about it though, we are very careful to make sure that the extension fits the brand strategy and fits the brand authenticity. And so Aguas Frescas rooted in Mexico very much a part of what happens south of the border that appeals to our consumers in the U.S. with – our mind. We actually looked at should it be Corona, Modelo and excel right. For Modelo and that's what consumers played back for us, so that authenticity and connection to the brand matters.

And we try not to do too much at once. And so there is a deliberate way in how we think about what comes next, how much time should we give the idea to live and grow in markets and make sure it continues to pay back to the master brand, so to speak.

But there are some things that the Mexican of course, just can't do. You can't go into new segments in certain ways that are authentic to the brand that protect the equity. And so in those times, we look very choicefully to say does it make sense to launch a new to the world brand we think that's right for shift? Or does it make sense to do a ventures minority investment in a mid-stage company that meets consumers where they are, does it in a way that's authentic and tell the right story but doesn't take away from the equity of our brands or the focus of our sales team because we want to make sure that we're balancing the growth of the core with what we do in innovation at the same time. So it's a fine toggle to make sure we're doing math the right way.

Analyst

So I guess we're going to spin out the next five years, can you give us some perspective on how you're thinking or what you're seeing in terms of just the sort of the dynamics between alcohol consumption and spirits versus beer versus wine. It's been a thematic thing for the last 20-some-odd years. And just what's changing, what's involving? I'm going to ask someone — ***indiscernible*** — the GLP-1 sort of factor in that 5-year plan as well. If there is one, is it on your radar? I'm not asking for kind of what you're seeing now, but I'm assuming you're – someone is looking at it, but maybe not.

Executive

[Let me take both of these.]

Mallika Monteiro

Why not?

Executive

Can you put up that slide, please? I've been waiting for this one. Thank you. Look, I could spend all night on this slide, but when the interest is not doing it for the rest of the evening, I'll just point out a couple of things. One percent of the population is actually consuming any of these drugs today. Mallika and her team has listened to 2.6 million conversations about what people are doing and how they're doing it. Seventy-one percent, I don't care what it costs, I wouldn't do this if this is the last thing walking. And in those 2.6 million conversations, only 2% even brought up the topic of alcohol. I don't think it's going to be a big issue for us. Obviously, we'll continue to watch the question. But I think in terms of overblown, this probably goes to the top of the list. Thank you for your fact sheet.

Analyst

— ***indiscernible*** — that slide.

William Newlands

Well, we got to be ready. And thank you for the – we did use some data that we found in multiple locations for this lovely slide. But going back to the question of beer, wines and spirits. One of the things that I think that we have the benefit of is that we are in each of those categories. I alluded to the fact earlier that 9 out of 10 alcoholic beverage consumers consume all of them, and they spend 6x as much as anybody that [just is in] less than that. So we think we're uniquely positioned no matter what the answer to that question ultimately looks like.

I also think you're seeing a lot more fluidity in terms of what is the base of certain things. I don't think the consumer is as knowledgeable today about what exactly the base is of the alcohol as what they might have been a few years ago. You're seeing a lot more blurring of that. We've done some great work where we have barrel – spirit barrel-aged wines. It's been a terrific sector for our wine. Well, what is it? It's a little bit of both, if you really want to be honest about it.

So part of what we're doing is trying to make sure that, that isn't a relevant answer to us. We would be prepared to play in any of those sectors depending on how and where the consumer goes. And then some of the innovation work that Mallika and her team are doing position us with areas that the base alcohol is not really the point. It creates a great drink experience that the consumer can enjoy. So I'd say anything we would say to tell you which one goes better or worse is probably a guess. Importantly, we're in a good position to take advantage no matter what the answer to that happens to take.

Joseph Suarez

Perfect. All right. We can to go Bill at the back.

Analyst

So on marketing spend, I think, Mallika, you said ROI $2.5. So why is 9% the right number? Why isn't it something higher? And then what does your analysis tell you happens to ROI on that spend when you do go above 9%?

Mallika Monteiro

I know you have a strong opinion about that.

James Sabia

Yes. Bill, we look at this – we've been looking at this for many, many years, right? Looking at all the activities against marketing, against what brands, what's the ROI, whether it's linear TV, social, digital, right? The 9%, what we've done is we've really focused now on some of our core brands to put resources against. So Modelo will get more, Corona will get more, Pacifico will get more. We're really making the big bets against those core brands, and others like Oro, and some of the other ones like Premier, right?

So the marginal $2.50 is the ROI. And by brand, the marginal ROI is different, right? So where you – if you spend too much like on a brand like Pacifico too quickly, your points of distribution aren't there. So your ROI could be x, but your marginal ROI could be a lot less. Brands like Modelo, with all these new points of distribution and all the activities, that's where we're really going to spend resources behind because it has so many more points of distribution.

And the thing about 9% is that we're going to hit 7% to 9% net sales every year. So our marketing budget will go up every year. And over the course of 5 years, that's substantial dollars. So as we look at that, we feel very, very confident with the new media agency we have, what they're doing and whether we're buying or media and how we're allocating our resources and our knowledge about what activities against what brands against what part of the country, we feel like 9% is a really great number for us to continue to drive this business.

Joseph Suarez

I think we'll go to the question on the right, Andrea?

Andrea Teixeira

Andrea here from JPMorgan. So I wanted to go back, Jim, you said like the marginal rate of ROI going to the innovation. And Mallika, you correctly pointed out, right? I mean, obviously, you'd try to protect your brand equity on the big, big, large brands. So what would take you to get to that operational leverage as you go – and your depreciation?

And I guess, Tom, you gave like a good example of how, historically, your margin could touch that higher level. And now that you're getting into the better productivity on those additional active leaders in both Nava and Obregon, why not getting to that high end, given that you're having all, you're hitting all those points in productivity? What will take you to hit those high notes, I would say?

James Sabia

I think as Tom laid out, right, in terms of our marketing at 9%, SG&A at 4% or 5%. The materials, which are 55% to 60% of our cost, right, those still – we believe they're going to have low-single-digit inflation, right? So with that and then with the depreciation that Tom talked about, I think in fiscal '24, it was like $285 million of depreciation, right?

As we look at that, pricing is now 1% to 2%. We learned a lot about pricing. As Tom mentioned, we took 2.7% 2 years ago and then we took 3.7%. And we saw elasticities. We saw that being a drag. And Bill always reminds us, it's so much harder to recruit new users than lose them, right, and get them back. So when we do have these consumers, we're being extremely mindful of how aggressive we get with pricing, working with our distributors on a market-by-market basis.

So we feel good about where we are with the top line, 7% or 9%, with the bottom line getting to 39%, 40%. In the middle there with the marketing, with the SG&A, and then Tom talked about the depreciation, that's where we're going. Now the materials, right, we just – cost innovation. We talked about $300 million over 5 years. And that's kind of linear. That's $60 million per year. Naturally, we're going to continue to push with John and his team to get more of that. So we're going to continue to push as hard as we possibly can actually to get to that 39% as quick as possible.

Joseph Suarez

And we'll go one on the middle. Brett?

Brett Cooper

Question on premiumization. We've seen it for a long time in the beer industry, but it seems to have kind of capped out at your portfolio price point. I think it's not that much higher, whereas Wine & Spirits continues to ratchet up. Can you explain why that is and why it isn't a risk that the consumer goes to sort of the next price point in beer over the next 10 years?

James Sabia

You want to talk about wine, Bill? And I can talk about beer.

William Newlands

Go ahead. You start.

James Sabia

Yes. So you think about the high end, and the way we look at the high end, it's a 127 index to premiums, right? So our portfolio, we used to be about $8 to $10, if you go back 7, 8, 9 years between premium. Now we're getting up to $12, $13, $14 per case, right? So we believe, right, consumers are drinking better, right? They're not drinking quantity, they're drinking quality. So we believe that's going to continue to increase.

As we looked at – I think the – I'm not going to – the numbers of 17 states are at 60%. There are so many more states with the light blue that is getting 3-plus more share points at the high end. So we believe that the consumers will begin to continue to trade up. Now what's the end game in terms of how much can you sell a 6-pack for? Folks that live in New York City, they probably pay probably $13.99 for a 6-pack of Corona. In some other markets like in Texas, a 12-pack is $22. So it depends where you are. It depends on the consumer. It depends on taxes.

So we believe premiumization will continue in beer, how high and what kind of price point can you get. You have to really offer a liquid that's very unique. And now in wine, the [terroir] and To Kalon grapes are a lot more expensive naturally, and I'll let Bill talk about wine. But with beer, right, the ingredients are more simple than it is potentially with wine and where the grapes are sourced from.

William Newlands

Jim spent some time as the CMO of our total company, and so he got to be a wine guy on the side while he was doing that.

James Sabia

Yes, I was trying to learn.

William Newlands

I don't want to take away from our wine team. They're going to talk to you a lot about the whole premiumization. But I think one fact that stands out about wine for us is, 4 years ago, we were in the low-40s percentage of high-end business of our overall portfolio. That's gone up more than 50% in the last year, and you saw some of the facts that back up what I said.

I think that's a critical part of what you're going to hear about later today, is the real transformation that you've seen in this business. We've radically deemphasized the mainstream sectors, which as you've seen. It isn't very healthy. And I think that was a critical move that we made, which will sustain the long-term premiumization approach that we've taken with this business. And I will not steal the thunder for the rest of the team when they come up and talk to you about it.

Joseph Suarez

All right. And we'll do last question in the middle, and then we're going to go to a 10-minute break after this one.

Analyst

Thanks very much. Two quick questions. Jim, I'm wondering if you could frame for us – [Jeff Walker with Stopin Capital.] The points of distribution, 500,000 incremental, was that specific to Modelo? And where does it sit? Or is that total company? And where are you today? So what does that mean in terms of incremental points of distribution penetration? That's the first question.

The second one, more from Mallika. I think we've all seen innovation is very important, and you need to do that whatever company you're talking about. But you do have experience in the Corona family side with Corona Familiar, which I think popped up in many locations, but now has gone away. Corona Premier seems to be doing quite well. So talk about some of the challenges and success there. But also we do know about Corona Hard Seltzer in the obsolescent charge. So what are some of the key learnings? And kind of how you go forward with a different path, perhaps, to be more successful? Two questions.

James Sabia

I'll start with the distribution of 500,000 points of distribution. As Bill mentioned, about 250,000 of those are Modelo and the other ones are our core brands with our current SKUs. So we talked about there could be more, meaning if we come out with a 7-ounce of Pacifico, right, or we do more price pack architecture or we do another line extension of another – one of our master brands. So the base over the next 5 years is 500,000 cases, with 250,000 of those against Modelo Especial. Then on top of that would be more price pack architecture, more innovation to build on the 500,000.

Mallika Monteiro

I would say on Corona innovation, and it was the first brand we really have extended at scale in a number of different platforms. We learned a couple of lessons on Seltzer that we're applying to the new innovations we're bringing on our brand extension. The first, we were late to market. And as Seltzer was starting to develop, there were a lot of new to the world brands that were driving growth. We were later to market than we would have liked. And in those segments where there is a little bit of a boom and then a stabilization, being earlier rather than later matters.

The other thing I think we've learned, and you see it now on – what we're applying to Chelada, with Frescas, even on the wine and spirit side with barrel-aged cocktails on High West and Mi Campo ready-to-serve, you got to be distinctive and have a point of view in the market that is different from what everybody else is doing. And we're holding ourselves to that standard going forward, that we have to bring something that is unique, that gives the consumers a reason to take stock and try our products. And so that's the other lesson that we're applying going forward.

Joseph Suarez

Great. And with that, we're going to go to a quick 10-minute break, and then we'll be back for Wine & Spirits.

Mallika Monteiro

Thank you.

[Break]

Presentation

Attendee

Please welcome, President, Wine & Spirits division, Robert Hanson.

Robert Hanson

Good afternoon, everybody. It's a pleasure to be here with you. I'm Robert Hanson, the President of the Wine & Spirits business. I've had the pleasure to work with my talented team on the transformation we've been driving for the past 4 or so years. And prior to that, I spent 6 years on Constellation Brands' Board.

I'm going to review the transformation we've achieved up to this point and discuss our current and future role in driving Constellation Brands' shareholder value. Matt McHargue, our SVP of Brand Management; Sam Glaetzer, our SVP of Operations and International Sales; Lisa Brown, our SVP of Supply Chain; and Ken Metz, our SVP of Finance, are going to discuss our brand and channel drivers, our operations and supply chain initiatives and, of course, our financial guidance in more detail.

Before we focus on the future, I do want to spend a moment to ground us in where we are today and the drivers behind our decision to make an adjustment to our revenue guidance for this fiscal year. We are revising our fiscal year '24 guidance down from – down 0.5% to up 0.5%, then to down 1% to 2%. Though we are maintaining our operating income guidance of growth between 2% and 4%.

Recent dynamics in the marketplace have driven this decision to revise our guidance. We're seeing the marketplace is in a – a marketplace deceleration in our more mature Canadian, Australian, New Zealand and Italian businesses behave more similarly to the U.S. wholesale marketplace.

And while we're maintaining pricing discipline and continue to take pricing, the competitive pricing context has made it difficult to realize full price optimization. And the Canadian Liquor Control Board made some recent changes to inventory regulations that are driving destocking. So these have been the drivers behind our adjustment in revenue.

But we are, however, maintaining our operating income growth guidance range. And this is driven by positive price and mix across our higher-end portfolio. We are having sustained market outperformance from the higher end and getting greater returns and leverage from our marketing and SG&A investments as well as distributor/partner contractual performance obligations.

We are confident that our net sales performance will accelerate from this year forward, driven by our linear performance improvements that have enabled us to outperform the market, including this year, and will continue to drive strong operating income growth.

With that said, let's get into the reasons behind our confidence. We've taken a series of strategic actions since 2019 to reshape our portfolio towards the higher end, in line with consumer-led premiumization trends. We expect our higher-end brands to continue to drive growth and become an even larger part of our mix moving forward.

We've built a global omnichannel route to market, diversifying our channel and geography mix beyond the more mature U.S. wholesale business, and expect our DTC and international businesses, which both have a long runway, to drive growth outperformance. Operational and efficiency initiatives will deliver margin enhancements while supporting our higher in mix shift, our quality objectives and our enterprise-wide ESG goals.

We're confident moving forward in our ability to deliver our medium-term financial targets of 1% to 3% net sales growth, beating market performance as we have historically done; and 25% to 26% operating margins, which are considered best-in-class among our high-end peer set.

So now let's review the strategic initiatives that underpin our growth and margin algorithms. In 2019, Wine & Spirits was a broad, volumetric, primarily U.S. wholesale portfolio with weak structural economics. Today, consistent with our vision, we are the largest still – premium still wine producer in the world with a curated portfolio of mostly premium, fine wine and craft spirits brands that are competing in tailwind-driven pricing segments and with a global omnichannel route to market.

Our higher-end business is supported by the 8 key pillars that you see on the slides. We believe these are the right areas of focus and will allow for linearity of progress against our commitments, while delivering shareholder value creation for Constellation Brands moving forward.

Given our shift to the higher end, I'd like to take just a moment to clarify the sources we use to track our business, which do differ in part from our Beer business. As you can see here, Circana-tracked channel data is reliable for tracking the U.S. wholesale mainstream and premium segments of the market, but is constrained in tracking global fine wine and craft spirits.

To get the most accurate picture possible of our higher-end global business, we combine Circana for U.S. wholesale mainstream and premium brands, with IWSR and NABCA for U.S. wholesale and international high-end Wine & Spirits brands, and we use Sovos ShipCompliant to track our DTC business. So we're going to be using these 4 sources moving forward to track our business performance as we share it with you.

Now let's dig into the details of the opportunities we see for this business. Our strategy is aligned to several key consumer trends that are driving growth in the category: premiumization, DTC and digital, betterments and international. Consumer preferences continue to shift to the higher end across both wine and spirits, as you can see on the left of the slide, which outlines the historical CAGRs demonstrating the outperformance of the higher end in both categories.

DTC value has delivered greater than a 12% 10-year CAGR. It's a fairly underdeveloped category in beverage alcohol and particularly for us, which I'll review in more detail in a moment.

Betterment has quickly become a standout global trend and is estimated to be a $4 billion to $5 billion market in the medium term. Just in the U.S., the betterment category has driven a 25% CAGR – 10-year CAGR. We've challenged ourselves to be the market maker in betterment by leveraging the broad shoulders of our leading brands. And again, I'll review that in more detail in a moment.

While the U.S. wholesale market is mature, and we remain committed to growing the business above the weighted average growth of the market, consumer markets around the world are ripe for higher-end wines and for craft spirits, especially in emerging markets.

Solid growth has come from international, especially given 2 years of COVID impact, particularly in China. And we see the international market as a compelling opportunity because we're particularly underdeveloped in emerging markets, such as Latin America the Middle East and North Asia. These key trends underpin our strategic focus and portfolio reshaping efforts, which I now am going to review.

Since 2019, we've reshaped our Wine & Spirits business to a higher-end, higher-value portfolio. This has been achieved through a series of divestments of lower-end brands, supplemented with successful tuck-in M&A. We broadened the shoulders of our leading brands, and we've renovated our accessible brands that are important for scale and cost leverage but – and are competing to hold share in a challenged market segment.

We're now a strong competitor with a focused set of high-end peers. We now see, for example, our competitors is Napa, the higher end of Treasury Wine Estates, the very high end of Gallo and spirits companies such as Beam. While not a direct competitor, the reshaped higher-end portion of our portfolio is now more similar to, for example, LVMH's sparkling portfolio.

If you think about their portfolio, they compete with Chandon in the teens, and it goes all the way up to Dom Pérignon and Cru get $300 and above a bottle. In our case, it's Meiomi and Kim Crawford in the teens, and we compete up to $250 to $350 a bottle with Schrader, the To Kalon Vineyard Company and the Robert Mondavi Reserve tier lines.

We do have 2 brands, Vint and SVEDKA, currently in the mainstream segment, that we're positioning up a tier into accessible luxury over time. We believe that we're broadly finished with our portfolio reshaping. Don't have any near-term divestitures planned. And consistent with Bill and Garth's articulated capital allocation strategy, we're going to be focusing our investments on organic growth, higher-return marketing activities and higher-end tuck-in M&A.

Now let's take a look at the portfolio on a CAM profitability basis because it's quite insightful. Projecting CAM through fiscal '28 provides further evidence that our strategy has poised us for growth and profitability expansion and scale momentum. As you can see here, the highlighted brands have both strategic and financial attractiveness, and will receive more focus from us over time.

They are already contributing CAM that exceeds the less-profitable brands – mainstream brands such as Woodbridge, which is our largest case volume brand by far, but is margin-dilutive. So for example, we're expecting Meiomi CAM to be greater than 3x the CAM of Woodbridge by fiscal '28 at 1/3 of the volume. And High West to be similar CAM to Woodbridge at just 5% of the volume.

Our focus on CAM profitability is a key pillar to offsetting the drag from our large volume but dilutive Woodbridge brand that is competing in a challenged market segment in the marketplace.

With our successful premiumization strategy taking hold, we've been able to meet or exceed comparable peer performance averages since 2019. As you can see on the right, we've shifted our product mix significantly to above $15 a bottle. And we'll continue this mix shift, as Bill pointed out, to achieve the mid-70s by fiscal '28.

And on the left, this shift has enabled our total business, which is in dark blue, to outperform the category against the peer set that I mentioned a moment ago in gray. And this is driven by the outperformance of our higher-end in light blue, offsetting the drags of our mainstream brands in yellow.

Now I'd like to discuss our track record of successful inorganic and organic growth driven by tuck-in M&A and innovation, which Bill – build on the points you heard from Bill earlier as well. We've developed a proven ability to successfully integrate and scale acquisitions in the Wine & Spirits portfolio.

CAGR, since acquisition, range from 9% with Schrader and Double Diamond, and that includes lapping a missed vintage due to wildfires. And My Favorite Neighbor, which is driving a 121% CAGR, with scaled brands such as Meiomi, The Prisoner and High West, ranging between 13% and 29%. A more recent acquisition, My Favorite Neighbor, which includes Booker Estates, My Favorite Neighbor and Harvey & and Harriet has shown an impressive 121% CAGR since acquisition.

As we've successfully integrated and scaled these acquisitions, we've also created meaningful organic growth through innovation, which has driven approximately 7% of our net sales in fiscal '23. Three examples tied to betterment and ready-to-serve cocktail trends that are worth noting: our Kim Crawford Illuminate, which is the #1 white betterment SKU and driving 138% CAGR; Meiomi Bright, the #1 red betterment SKU, that's driving a 46% CAGR; and Mi Campo ready-to-serve cocktails, which competes in the second-largest spirits category by volume, according to SipSource, is driving a 52% CAGR.

A case study that combines our ability to acquire and then scale through innovation is The Prisoner Wine Company. Once known only for The Prisoner Red Blend and a smattering of small DTC SKUs, The Prisoner Wine Company is now a house of 5 brands, driving a 46% CAGR from the brand family innovations that we've introduced into the portfolio.

And this has been achieved by introducing new brands such as Unshackled, which competes in a really important $20 to $30 price segment; converting DTC SKUs into standalone brands such as Saldo and Blindfold; extending the shoulders of all the brands with consumer-relevant varietal launches and tuck-in M&A, such as our recent acquisition of Domaine Curry. This successful high-end growth playbook is being applied to the balance of our portfolio, and we expect that to help deliver – accelerate our performance moving forward.

Now let's take a deeper look into our shift in geography and channel mix. While growing all 3 channels, including the U.S. wholesale marketplace, we intend to continue to focus on accelerating our DTC and international businesses over time. As you'll see, at the top of the slide, we're still in early stages of this channel mix shift, having doubled our very immature DTC business from 2% to 4%, while increasing international from 8% to 10% of channel mix.

These are solid accomplishments, but the most important point here is that we now have a foundation in place to double the combined DTC and international mix from the mid-teens today to around 30% by fiscal '28. The bottom outlines are CAGRs by channel versus their respective market, where we have beat the market in all 3 channels.

Now let's take a look at a few of the key pillars that are working already and underpin our future growth. To profitably grow our business, we're developing a disciplined and focused approach to omnichannel commerce globally. We plan to grow our U.S. wholesale business 100 to 150 basis points above the weighted average growth of the marketplace.

We'll achieve this through really rigorous national account planning and by penetrating channels where we're underpenetrated and that are aligned with our premiumization strategies, such as the general market, the on-premise and 3-tier e-commerce.

We have built and now have a GP-accretive multichannel high-end DTC business rooted in hospitality, e-commerce and loyalty. Our DTC business is still quite immature compared to other high-end competitors, where DTC mix can be as high as 30% to 40% of total business. So we have a big opportunity there.

Our prior international business was complex, lower end, asset-heavy and dilutive. Today, we have a successful, profitable, asset-light, key city strategy, with the foundation poised to double the business in the medium term, while shifting our brand mix to greater than 90% high end. Matt and Sam are going to be reviewing a little bit more detail about our shift in brand and channel mix in just a moment.

Let me wrap up my strategic review by reviewing our go-forward growth and operating margin algorithms. As Bill mentioned, our strategy has delivered a consistent linear year-over-year improvement in organic growth and operating margins.

We'll continue this performance acceleration by further leveraging the key strategies I just reviewed: further shifting our mix to the higher end in both brand and product, accelerating our track record of successful and scale innovations, continuing to beat the U.S. wholesale market through rigorous national account planning, but especially through penetrating underpenetrated channels that I just mentioned by driving double-digit growth in DTC and high single-digit growth in the international market.

These growth drivers will support margin expansion as we focus on GP-accretive brand, product and channel mix, gain pricing leverage through consumer-led premiumization, optimize our operations and SG&A cost structure, and drive both a higher return and greater efficiency from our marketing investments.

I'm very much looking forward to answering your questions a bit later, but now I'm going to turn it over to Matt and Sam, who are going to share our brand and channel performance and plans in a lot more detail. Matt? Over to you. Thank you.

Matt McHargue

Good afternoon, everybody. As Robert mentioned, the overall category has seen continued fragmentation of health depending on price point and varietal, with strong premium brands driving category growth. We've had a tremendous success in tracked channels outpacing the higher end by over 5x. We expect to gain further share with our higher-end workhorses, Meiomi, Kim Crawford and The Prisoner; and tremendous share growth versus the category with High West, Mi Campo and Casa Noble.

I'll now review the highlights and drivers behind this. We strategically expanded The Prison from a branded house to a luxury house of 4 brands: The Prisoner, Saldo, Unshackled and Blindfold. We've established dominance to the U.S. market, now owning the #1 super luxury red blend with The Prisoner, the #1 luxury red blend with Unshackled and the #1 super luxury Zinfandel with Saldo.

While The Prisoner Red Blend has an extremely high ACV in the U.S., it still has significant distribution runway internationally, an opportunity to increase velocity in the U.S. and room to close gaps with its newer line extensions, which provide a runway for the brand to grow in the mid-20% range.

Blindfold has quickly become a leader in the super luxury white blend category, with a long runway for growth in distribution, velocity and net sales. And although Unshackled Red Blend already leads the luxury category, we'll focus on closing the 88% penetration gap to Decoy.

Saldo's core Zinfandel SKU is leading the category and will continue to maintain ACV leadership over Rombauer as we focus on increasing ACV for its line extensions, leading to mid-20s net sales growth. And as Robert mentioned, we recently welcomed a fifth brand of the house with our acquisition of Domaine Curry, founded by Ayesha Curry and Sydel Curry-Lee, welcoming younger LDA and multicultural consumers in the luxury wine space.

In the ultra-premium segment, we currently have 2 dominant market leaders in Kim Crawford – or Meiomi and Kim Crawford. Not only do they own the #1 pinot noir and sauvignon blanc, respectively, also the #1 wine in Canada with Kim Crawford, but also own the #1 white and red wines in the betterment space with Kim Crawford Illuminate Sauvignon Blanc and Meiomi Bright Pinot Noir, respectively.

The growth runway for the 2 brands will be driven by closing distribution gaps to the premium-plus leaders of Josh Cellars, closing gaps at their core SKU ACV with Meiomi Chardonnay, Cabernet Sauvignon Red Blend and Kim Crawford French Rosé and Italian Prosecco; and as Robert mentioned, continuing to be the market maker in betterment. This strategy will allow us to increase net sales in the mid-teens of Meiomi and low-20s with Kim Crawford and be able to drive incremental benefit in the betterment space across our entire Wine & Spirits portfolio.

With that, I'll switch gears to an adjacent growth category in higher end spirits. We currently have a high-growth, tightly curated and well-positioned craft spirits portfolio with a long runway, both domestically and internationally. Our vertical in tequila, a category with tremendous tailwinds, is positioned to continue to welcome consumers into the luxury and ultra-premium segments.

Casa Noble, with its multiple-tier luxury offerings, enables us to capture further share and close gaps to Don Julio, leading to greater than 50% net sales growth. And the ultra-premium tequila space, Mi Campo, right behind me here, a brand we created and launched in-house, will continue to close distribution and pricing gaps to Espolon, while taking advantage of the meteoric rise of the $11 billion ready-to-serve cocktail space with Mi Campo cocktails, which we launched earlier this year. Execution of both will lead to over 100% net sales growth in our tequila portfolio in the medium term.

And while we have several strong players in the American whiskey, High West has been a standout, having experienced tremendous growth since we acquired the brand in 2016. It still has material distribution runway in the U.S. versus key competitors Basil Hayden and Angel's Envy and has just started to ship internationally. As we close those distribution gaps of bourbon and rye and expand internationally, it will lead to net sales growth in the mid-30% range.

And although our growth road map is super clear with our well-positioned, higher-end brands, we recognize the work to be done to renovate our mainstream brands, mainly SVEDKA and Woodbridge. The transformation of both brands will allow us to capture consumers that are new to the categories, while providing us with continued scale and operating margin leverage crucial to the continued growth of our higher-end portfolio.

We'll execute using 2 distinct playbooks. Work is underway to shift SVEDKA from an unfocused mainstream position with dilutive flavor extensions to an affordable luxury position focused around a dominant 80-proof SKU, haloed with a collection of ready-to-serve martinis, with channel growth focus shifting to the on-premise and liquor channels in key states. With the new positioning, we predict a shift to low-double-digit net sales and a margin profile moving from 43% to 50%.

We'll modernize Woodbridge and align its offerings to consumer preferences, such as a sweeter taste profile, building on our existing 13 varietals across 2 price points. We expect this will improve margins in the mid-20s, with the goal to hold share, and what Robert described, with a very declining market.

Now I've spoken to individual brand highlights, let me switch gears to our omnichannel route to market. While we do have significant share in U.S. wholesale, we still see meaningful growth runway in 4 key areas and have plans in place to: focus growing distribution to our competitive benchmarks while leveraging the pricing power of our stronger, more highly penetrated brands; execute a strategy of continued leadership across all of our national accounts; invest in underpenetrated segments, including on-premise, the general market and 3-tier e-commerce, which are all outgrowing the broader segment; and finally, growing innovation in the high single digits.

We experienced industry-leading DTC growth of 29% in FY '23, and we'll continue to invest in what continues to be an underdeveloped category in the beverage alcohol business; driving hospitality visitation and increased AOV around our 20 sites globally, leading to a net sales growth of greater than 10%; accelerating first-party data, affiliate marketing and personalization to continue to drive 40-plus percent e-commerce growth; and enhancing customer experience and consumer acquisition in club, corporate sales and events to drive 40-plus percent net sales in the loyalty channel.

I've addressed 2 legs in the channel stool, and now I'll turn it over to Sam Glaetzer, SVP of Global Operations and International Sales to hit our third, which is our international route to market. Sam?

Samuel Glaetzer

Thanks, Matt. Hi, everyone. It's great to be here today in New York. A long way from where I first started in the mighty Barossa Valley. I even found a suit to come along with me. But I'd like to speak to you now about our international expansion strategy.

Today, it is only 10% of our business, but it's a critical piece of our shift to the higher end and gives us a diverse path to growth, somewhat independent of the U.S. economic footprint. Global businesses tend to be complex, sometimes unfocused and often dilutive. Ours was too. However, today, while our revenue was flat, our operating income is up 38% from prior years, resulting from our disciplined and focused strategy, which sets us up with the foundation to drive both our top and bottom lines.

We have built a strong asset-light profitable international business base that will allow us to constantly grow our $200 million top line revenue business to 2x that in the medium term, whilst also keeping our healthy margins intact.

Now how are we going to do this? Well, firstly, it's a continuation of our asset-light strategy with a strategically located and extremely talented team. Secondly, it's the focus on continuing to build our amazing consumer experiences around the globe. Third, a disciplined approach to growing sales for our higher-end Wine & Spirits brands whilst maintaining our share in the mainstream. And our fourth area of focus is our pivotal key city strategy.

The globe is large and complex, and it could be cumbersome to run an international business. But we don't look at our international route to market as the entire globe. We see the opportunity as a combination of key cities, where consumers often will have the economic buying power that fits our high-end portfolio.

Our city strategy firstly separates emerging markets versus mature markets. We define this by the attractiveness and the penetration curve at which consumers are interested and buy predominantly U.S. fine wine and craft spirits. We then map to these cities in the regions where those customers reside. From there, we are accelerating and optimizing our ability to reach those consumers through our strategic partners in those regions and also investing ourselves internally.

This model is iterative. Firstly, it's based on history, but then we overlay both the current and future economic potential they may have. A great example of our willingness to accelerate in the right markets is our recent leadership investments in both Japan and South Korea. We've seen no shortage of growth runway with this playbook, and I'm very much looking forward to updating you as we progress on this great journey.

Now I'd like to change my hat, shift gears to our global operations efforts, which support our higher-end global omnichannel portfolio. I'd like to begin by speaking about the asset network and optimization initiatives which create flexibility and risk avoidance across our global footprint, whilst always staying focused on quality day in and day out.

We have a global network of diverse and strategically located vineyards and wineries which produce the highest-quality grapes in the world. Over time, we have developed a well-renowned footprint, operations footprint, and have continued to invest in strategic assets across key regions enhanced with the necessary resources and capabilities to support our premiumized portfolio.

We employ our highest and best use approach to our assets from New Zealand to Italy, and across our mighty fine U.S. footprint. Not only do we produce some of the best wines and spirits on the planet, we have also made it a priority that our footprint can adapt to climate change and shifting consumer preferences. We also apply this mindset across our great spirits network as we expand our leadership in the category.

Our commitment to highest and best use of our assets has dramatically shifted our grape allocations from 2019 to today. Our better cultural teams, which previously were focused on growing predominantly for our mainstream business, are now focused on growing each vineyard block to produce the highest-quality grapes, which are then put to the best possible use in our wine portfolio.

We also use cutting-edge technology across all growing spectrums and have an unwavering commitment to ensuring the land we farm is in better conditions – in a better condition for our generations ahead. A great example of this capability and commitment is our To Kalon Vineyard in the Napa Valley.

To Kalon, very dear to my heart, has been consistently ranked as the top vineyard in the U.S. and often in the top 5 vineyards around the world. It supplies our fine wine portfolio, including the Robert Mondavi Winery, the To Kalon Vineyard Company, Schrader and Double Diamond.

To Kalon received organic certification this year. It is now farmed in part using electric tractors. It is leveraging world-class technology to optimize its water use in line with our ESG goals. Just a few years ago, 10% of our To Kalon fruit would go into bottles of our wine greater than $100. Whereas today, 2023 harvest, we are achieving greater than 70%, and it's climbing.

Another example of this great result is the profit generated from this asset, only a few years ago, was delivering $40 million, if we look at the price versus the market through price. Today, 2023, we are planning on having that at 3x that amount at $120 million. A testament to our commitment to quality is our fantastic rankings for the 2022 Wine Spectator's Wine of the Year list.

In first spot, the coveted position, was our 2019 Double Diamond Oakville Cabernet Sauvignon. And coming in at an excellent ranking of #6 was our 2019 Robert Mondavi Oakfield Estates Cabernet Sauvignon. I'm really looking forward to tasting these wines with you, hopefully, very soon at our happy hour, if there's not too many questions. And for those of you listening on the webcast, it would also be super if you could perhaps buy a bottle or 2 and try them for yourselves.

Now I'd like to welcome my colleague, Lisa Brown, SVP of Supply Chain, to showcase some other areas in our operations business, where we are focused on driving efficiency without ever compromising on quality. Thank you.

Lisa Brown

All right. Hello, glad you all are still hanging in there with us, because I personally am very excited to be here with you today to provide an overview of several key supply chain initiatives that support the strategic and financial commitments that we've outlined. Our sustainable design acceleration and SKU rationalization initiatives are designed to improve our cost structure in areas within our control, while helping to deliver both on consumer preferences and our ESG objectives.

We are currently on track to deliver the targeted $12 million to $14 million of savings this fiscal year, with a solid plan for an additional $5 million to $8 million next year. This program directly supports our broader sustainability goals. One example is the reduction of our glass usage by 7,000 tons. So that is the equivalent of nearly 9 million, I'll say it again, 9 million bottles with no decrease in perceived quality.

We will continue to pursue these efforts as good stewards of our environment while continuing to improve consumer perceptions of quality, all while creating greater efficiencies across our ways of working and cost structure.

I'd like to now give you a snapshot of another efficiency enabler, our production facility and supply chain network optimization approach. As John shared from our Beer division, we're running numerous initiatives that are enabling us to run our business as efficiently as possible while maintaining our quality standards.

A key focus of ours is improving the network supply chain, which we expect will produce a plus 25 to 35 basis points lift to margin. We're recommissioning our Napa bottling center, which will give us – returns key capabilities – we're bringing capabilities back in-house, also reducing labor costs 20% versus third-party supply providers.

We are streamlining our logistics network, delivering an $0.11 per case cost improvement. This will better position us to service our fine wine customers with the experience they expect, while helping the environment by decreasing time and resources on the road and avoiding the use of additional capital.

Our cellar strategy enables us to efficiently utilize storage space as well as the full service life of current equipment, while, again, decreasing the need for capital investment as we leverage our internal resources and capabilities. And as Sam said, we now have a growing higher-end international footprint and are focused on supporting it in an efficient and optimal way.

We have similar initiatives underway in both our Spirits business and our DTC capability. I'll begin in Spirits with a few key examples. We have plans to relocate our High West bottling line to our Salt Lake City location, as well as in-sourcing components of SVEDKA production that will yield $1 million to $1.5 million in annualized savings and a $22 million CapEx avoidance. We also have a joint investment in tequila capacity that will both scale our portfolio and deliver production benefits, driving a 25% return on invested capital.

In our DTC channel, we are currently standing up the insourcing of our Schrader brand from a third-party provider to our Lodi distribution center for a partial year of $560,000 savings in FY '24 and up to $1.5 million in FY '25. We have plans to scale this capability across our entire DTC portfolio, which will deliver an estimated favorability of $7 million to $10 million.

I took you through several of the many initiatives we have underway, which are driving cost, process and material efficiencies. We will continue to pursue the highest and best use of our resources to achieve the structural economics worthy of a shareholder value-creating business.

Now I'd like to welcome Ken Metz, SVP of Finance, to the stage. Thank you.

Ken Metz

Thanks, Lisa. Hi, everyone. Let's talk about how the strategy we have articulated will accelerate our Wine & Spirits financial performance. Beyond fiscal '24, over the medium-term horizon, we expect our net sales to grow from 1% to 3% annually and to continue to improve our operating margins to achieve 25% to 26%. As a reminder, our unconsolidated investments contribute an additional $30 million to $40 million of EBIT each year.

Our fiscal '24 net sales are expected to be slightly below $2 billion. From that base, our targeted 1% to 3% annual net sales growth will be driven by the shift of our brand and product mix to the higher end, and our geo and channel mix to an omnichannel route to market, and planned annual price increases of about 1% a year, all of which are expected to offset the headwinds our mainstream brands are experiencing in the U.S. wholesale channel.

Our operating margins are expected to improve to 25% to 26% over the medium term. This will be driven by our shift in focus to higher-end, higher-margin products, which will make up a larger part of our portfolio, the benefit of our planned annual price increases and realized savings from the operations and cost efficiency projects that Sam and Lisa just discussed. And these benefits will offset expected COGS inflation and increases in depreciation from the expansion of our hospitality locations and investments in our operational facilities.

Although we hedge our foreign currency exposures to minimize volatility, our operating margins may also be impacted by foreign exchange rates associated with our 3 imported brands.

The productivity improvement initiatives that Lisa described are expected to deliver $125 million to $150 million in cumulative savings over the next 5 years. This will help offset inflation and improve our margins. Inflation has been higher than expected and higher than average over the last 2 years in the wine and spirits business, driven by higher freight, warehousing and labor costs.

In contrast to our beer division, the Wine and Spirits division does expect some mid-single-digit inflation in fiscal ’25 to fiscal ’28. This will be driven primarily by higher grade costs, which represent almost 50% of our COGS base. As well as facility deleverage and freight. However, moving forward, we expect inflation to return to more normal levels of low to mid-single digits. Including cost savings initiatives, as Tom did, when he talked about the beer business, we would likely be more in the low single-digit range of inflation.

To fuel our future growth and improve efficiency, we expect to invest approximately 100 – I’m sorry, $800 million in capital expenditures over the next 5 years through maintenance projects and organic growth investments. Our maintenance projects will include systematically replacing vineyards to ensure we maintain the highest quality. ESG initiatives, including our ongoing water stewardship programs and investments in electric tractors to reduce greenhouse gas emissions. And winery and distillery investments to boost efficiency while upholding our quality standards.

Our organic growth investments include renovation or expansion of various hospitality, winery and distillery sites to support strong demand. We expect our depreciation expense to be between $85 million and $105 million annually, including the planned capital expenditures. Our sharpened approach to return focused marketing results in our overall spend decreasing to 8% to 8.5% of net sales, which is still above the industry average. And we will spend more behind accelerating the growth rates of our higher-end brands while continuing to support our mainstream brands to maintain share in challenged market segments.

Although we've been managing our SG&A spending, there has been a slight increase in fiscal '24 from both inflation pressures and nonrecurring legal expenses. Going forward, we expect our SG&A to be around 14.5% of net sales despite these inflation pressures. We'll get there by investments in process automation and IT systems, margin accretive investments in DTC and International, given their growth rates above market and continued cost discipline to ensure SG&A does not grow faster than net sales.

I'll wrap up with a summary of our growth and profitability outlook. As Robert mentioned, our fiscal '24 net sales are expected to decline between 1% and 2%. However, we maintain our guidance of 2% to 4% operating income growth this year. In fiscal '25 onward, we expect net sales growth of 1% to 3% annually, beating the market as we have historically done. While delivering 25% to 26% operating margins, which is considered best-in-class among our high-end peers.

Our capital expenditures of $800 million over the medium term will help fuel our future growth and operating efficiencies, and we expect our annual depreciation to be around $85 million to $105 million. We believe that the acceleration of our strategy outlined today and our linear progress against our commitments will deliver strong cash generation and shareholder value creation for Constellation brands moving forward.

Robert will answer your questions in the Q&A, and we look forward to sharing our wine and spirits products with you during the happy hour. Thank you very much.

Operator

Please welcome Chief Communications and CSR Officer, Mike McGrew.

Michael McGrew

Hang in there, we're almost done. We're in the home stretch. Good afternoon. I'm Mike McGrew. My team is responsible for Corporate Communications, Investor Relations, Diversity, Equity and Inclusion and ESG, which is where we'll focus our attention for this afternoon.

Before I jump into a discussion about our ESG strategy, I want to provide a little context first as I think it's important to note that we've taken a number of steps to evolve our ESG approach over the past several years. With Bill's active support, we've established ESG as a core pillar of our business strategy and centralized leadership and accountability for ESG within our leadership team.

We've bolstered support for our ESG efforts by adding designated subject matter experts in areas such as finance, external reporting and water stewardship. We've elevated oversight of our ESG program to our Board of Directors, and we've embedded ESG into our annual business planning processes. So these are just a few of the pivots that we've made to raise the bar relative to ESG at Constellation over the past several years.

So what prompted the shift in our approach? Well, similar to what you've heard from those who came before me. We're absolutely committed to driving a culture that's consumer obsessed, and it keeps consumers at the forefront of our decision-making in all aspects of our business. And the fact of the matter is, today's consumers expect more from the companies and brands they support.

Based on a study conducted by PwC in 2021, 83% of consumers are more likely to engage with brands that demonstrate a sincere commitment towards ESG-related issues. And conversely, they're willing to walk away from brands that they feel are misaligned. We see this as a huge potential business opportunity to influence more consumers to choose our brands, to stay loyal to our brands and to trade up to our brands. And this sentiment, by the way, also applies to current and prospective employees, investors and other key stakeholders.

So we've evolved our ESG strategy to be much more tightly aligned to our business strategy. And we've prioritized investments in select focus areas that have significant bearing on our future growth and success.

Our strategy centers around 3 core commitments. Number one, to operate in a manner that safeguards our environment and natural resources. In this regard, we'll highlight our efforts to reduce greenhouse gas emissions and waste and to enhance our use of circular packaging. But an area that I'd like to call out more specifically in which we're prioritizing investments as it relates to the environment is water stewardship.

As many of you know, this has been a topic of interest, particularly related to our beer business in recent years. Water is essential to building thriving sustainable communities, and we firmly believe – we firmly believe that access to quality water is a basic human right. We want to do our part to ensure the communities where we operate, have an ample supply of this resource for many years to come.

Number two, we're focused on enhancing social equity within our company, our industry and our communities, ensuring that we cultivate a best-in-class workforce that reflects the diversity of our consumers, and our communities and bolstering support for underserved members of our communities with an emphasis on Hispanic demographics and female demographics, which are vital to our long-term success given their size, and increasing levels of purchasing power.

And number three, as an industry leader, we want to make sure we're doing our part to advocate for responsible consumption of beverage alcohol products. Let's delve a little deeper into each of these areas.

As it relates to water stewardship, we've made significant progress against our goals, which center around: Restoring key watersheds near our operations; continually striving to enhance water efficiency at our production facilities; recycling and reusing excess water consumed as part of our production process; and investing in water infrastructure projects in underserved communities near our operations to help ensure reliable access to quality water for local residents.

Our goal is to help build sustainable communities where our neighbors and Constellation can thrive well into the future. As part of these efforts, we set a goal in April 2022 to restore more than 1 billion gallons of water withdrawals to key watersheds where we operate by fiscal year 2025. Well, I'm proud to say, and you've heard it earlier, that we surpassed that goal earlier this year ahead of schedule. So we've increased our goal by an incremental 4 billion gallons and now expect to restore a total of 5 billion gallons of water withdrawals to key watersheds where we operate by fiscal '25.

Now to accomplish this goal, we're working with local authorities in Sonora, Mexico where our Obregon brewery is located to install agricultural irrigation equipment designed to enhance overall water efficiency in the region. The agricultural sector is by far, by far the biggest consumer of water in the region. And so enhancing water conservation efforts in this sector is key to long-term success.

We also installed a new water treatment facility at our Obregon brewery that allows us to recover, treat and reuse excess water for other purposes such as agricultural irrigation or for use in cooling pipes within our brewery.

In addition, we're working with NGOs such as Pro-Natura and the Nature Conservancy on multiyear projects designed to help restore underground water tables near our Nava Brewery and to bolster local watersheds near our wineries in California.

Overall, we reduced our total water withdrawals and water intensity rating by about 20%, respectively, from fiscal ’22 to fiscal ’23. And in fiscal ’23, we restored approximately 50% of total water withdrawals through discharge and restoration efforts.

Now moving on to greenhouse gas emissions. Our team is working diligently to reduce Scope 1 and Scope 2 greenhouse gas emissions in line with our fiscal ’25 goals. We’ve taken a number of steps to decrease our dependence on nonrenewable energy sources over the past several years, such as adding more than 80 low and 0 emissions vehicles to our fleet in Obregon. And we recently purchased 6 Monarch tractors for use at our California vineyards. Now use of these automated 0 emissions tractors is equal to removing over 60 gas power passenger vehicles from our roads each year.

We’re working to shift our reliance on fossil fuels to solar technology at our Ruffino winery in Italy and at The Prisoner Wine Company in Napa Valley. We’re transitioning from fuel oil to natural gas at our Obregon brewery. And we now purchased 100%. 100% of the electricity used at our Woodbridge Winery in California from renewable energy sources.

We continue to look for additional ways to complement these actions while ensuring that we make sound disciplined decisions that effectively balance our ESG ambitions with our fiduciary responsibility to shareholders and other business priorities.

Related to Scope 3 emissions, we’ve taken steps to enhance our data collection processes by putting foundational processes and controls in place for monitoring and reporting ESG metrics in line with established frameworks such as TCFD as part of our preparation to meet anticipated SEC requirements.

In addition, we implemented Enablon ESG software to assist with data collection and reporting related to water conservation and greenhouse gas emissions. And we've put measures in place to capture more actual emissions data from some of our largest goods and services suppliers, including glass, resulting in more accurate Scope 3 emissions. These actions help put us on a path towards establishing commitments aligned to science-based targets.

Now shifting gears. We established 2 new environmental commitments earlier this year, focused on reducing our operational waste and enhancing our company's use of circular packaging. Now it's important to note that our packaging mix is inherently recyclable with the vast majority of packaging for our products, consisting of glass, aluminum and cardboard. That said, we're taking steps. We are absolutely taking steps to reduce operational waste and to improve packaging recyclability by reducing the ratio of packaging weight to product by 10% across our wine and spirits portfolio by the end of fiscal '25. And as you heard from Lisa, we're well on our way to removing the equivalent of 9 million glass bottles from our materials footprint. Awesome progress.

We're also working to ensure that a minimum of 80% of packaging for our Wine and Spirits portfolio is returnable, recyclable or renewable. We're replacing high cone plastic rings with recyclable paperboard for all applicable 4 and 6 pack offerings across our beer portfolio, doing that by the end of fiscal '25.

And we're taking steps to pursue a true certification for 0 waste in key operating facilities. In regards to our focus on enhancing social equity, we've prioritized our focus on initiatives that positively impact core demographics relevant to our company's mission. For instance, in fiscal 2019, we launched our focus on Female Founders program. Now women make up more than half of the population in the U.S., our biggest market. Purchasing power amongst women has increased exponentially over time and women make a majority of household purchasing decisions, including decisions related to food and beverage, yet female representation with our industry remains relatively low. So we saw an opportunity to do better. We committed to invest $100 million in female-founded or female-led start-ups in the beverage alcohol space over a 10-year period.

Now this program, which is managed by our ventures team, invest in early-stage companies with products that have traction in the marketplace and that feel white space within our portfolio. In partnering with us, these entrepreneurs get access to more than just funding. They also get access to subject matter expertise in areas such as sales, marketing, finance, supply chain management and distributor relations. All of this is designed to enhance their chances at long-term success.

We launched a similar program for minority founders. And since fiscal '19, we've invested more than $98 million in female and minority founded small businesses combined.

We've also partnered with several community-based organizations focused on providing greater access to opportunity for underserved members of our local communities. Our partnerships with Dress for Success and UnidosUS are great examples. Dress for Success, empowers women to achieve economic independence by surrounding them with a network of support by providing professional attire and development tools to help them thrive in work and in life.

Dress for success has supported well over 1 million women since its founding. Most are women of color. Beyond monetary support, many of our team members serve as mentors, leadership coaches, digital workforce trainers and Board members for local chapters. UnidosUS supports Hispanic communities across the U.S. in overcoming many of the social and economic challenges that pose headwinds to this demographic.

Beyond monetary support, our employees help provide a homeownership counseling, financial management, coaching to Hispanic families and underserved communities across the country. These are just a few examples of the work that we're doing in this space.

All in, we've contributed more than $4.1 million over the past 2 years to help support the respective missions of our social impact partners. Now though we've talked about efforts to enhance social equity within our industry and local communities, I think it's very important to note that our commitment really starts at home. So from a diversity, equity and inclusion standpoint, we're focused on 3 areas: number one, cultivating a high-performing best-in-class workforce that reflects the diversity amongst our consumers and communities; number two, creating an inclusive culture that allows that diversity to thrive; and number three, leveraging the passion and talents of our diverse team to positively impact the world around us primarily through the partnerships mentioned earlier.

We realized that DEI leadership starts at the top. And we're proud of the strides that we've made to enhance diverse representation on our board, not only in terms of gender and ethnicity, but in terms of subject matter expertise, ensuring that we have a set of well-rounded perspectives at the table actively engaging in discussions and debates related to our business and key stakeholders.

Gender and ethnic diversity on our board rates slightly above 2022 S&P 500 board diversity averages which also sends a positive message and models behavior for the rest of our organization. And I'd be remiss if I didn't also recognize the strides we've made in enhancing the level of diversity in our executive management team, where we've increased diverse representation by 50%. 50% over the past 4.5 years. Now our team is working to enhance recruiting, hiring, onboarding and development programs in support of our ultimate ambitions.

As we bring more diverse talent into our organization, we're also focused on creating a workplace culture that fully harnesses the power of our increasingly diverse team. We've established 9 business resource groups across our U.S. operations and additional BRGs relevant to key demographics in our international operations.

Our BRGs develop and execute strategies to help enhance cultural awareness, develop leadership capabilities and to strengthen allyship across our company. Each member of our executive management team serves as an executive sponsor for at least one of our U.S.-based BRGs and over 60% of our employees. Over 60% of our employees are engaged as members of one or more BRGs.

To wrap up our last area of concentration related to social efforts. We continue to maintain our focus on promoting responsible consumption of beverage alcohol products. In doing so, we adhere to all industry standards and regulations related to responsible promotion and marketing of our products. And we focus on two areas in particular: number one, supporting fact-based education, engagement programs and policies to help empower adults to make responsible choices in their beverage alcohol consumption. An example would be our conscious consumption, social media campaigns and SafeRide home activations executed during cultural celebrations and holidays throughout the year. Number two, we've made significant progress over the past several years in developing a range of grade tasting, higher end, low and no alcohol offerings through our beer, Wine and Spirits and Ventures teams aligned to consumer trends around betterment and moderation.

Lastly, as Bill referenced earlier, we've made significant enhancements to our corporate governance structure over the past year. In addition to what Bill shared, we've established Board oversight of our ESG strategy, adding this responsibility to our Corporate Governance Nominating and Responsibility Committee. And our Board recently appointed Jennifer Daniels as Chair of this committee. She brings significant expertise and knowledge to this space as she's headed or head ESG oversight responsibility at Colgate Palmolive for the past 9 years. So she's been a great addition.

While we still have much work to do, our team is extremely proud, extremely proud of the progress made to date. We invite you to learn more about our efforts as outlined in our 2023 ESG impact report, which you can access via our website, cbrands.com. We appreciate the continued engagement feedback and guidance provided by our shareholders as well, and we want to continue to open dialogue as expectations continue to evolve in this space.

Now with that, I'd like to close my session with a brief video that we feel truly helps bring our ESG story to life. I appreciate your time and attention this afternoon. Thank you.

[Presentation]

Operator
Please welcome Chief Financial Officer, Garth Hankinson.

Garth Hankinson
Hello, and good afternoon, everyone. As I walk on stage, I'm acutely aware that I'm the last presentation before our final Q&A session and the happy hour that I think every one of my colleagues has referenced as we've gone throughout the day. But if you bear with me, I promise to be concise, but additive.

I trust everyone has found that the information today to be helpful in better understanding our medium-term outlook, including how we will continue to drive the company's medium-term success and how our business and enterprise plans are aligned to our overarching strategy that Bill stepped through earlier.

As I have the privilege of wrapping up today's presentations, my goal is to bring together our financial targets at an enterprise level and to tell how those translate to better returns for shareholders.

Through the lens of our financial outlook, I will cover two main topics. First, Constellation's enterprise-wide financial targets over the medium term. Tom and Ken did a fantastic job earlier today as they walked you through the key components for each of our businesses.

In my presentation, you will see how these come together at an enterprise-wide level to yield our targets of mid- to high single-digit net sales growth, 33% to 35% operating income margins and double-digit diluted earnings per share growth.

Second, I'll reinforce our capital allocation priorities, specifically how they have evolved when our current leadership assumed their roles and how we will continue to maintain a balanced and disciplined approach to our use of cash, including these updates regarding our targets.

First, we have optimized our beer expansion spend to approximately $4 billion from fiscal 2024 through fiscal 2028. As Tom noted earlier, a reduction of about $1 billion from our initial estimates.

Second, our Board of Directors has authorized an incremental $2 billion for share repurchases, bringing our current total available repurchases to roughly $2.8 billion.

Third, we continue to delever and anticipate achieving our net leverage ratio target of 3x during fiscal 2025. So let's get started with our enterprise-wide financial performance and outlook.

Our net sales growth target is 6% to 8%, having already been within this range in recent fiscal years, we believe 6% to 8% remains achievable due to the continued growth of our industry-leading core and next wave beer brands and our higher-end wine and craft spirits brands. Consumer-led innovation across the entirety of our portfolios and disciplined annual price increases for both of our businesses.

By delivering this annual net sales growth target, we anticipate a net sales uplift between $3 billion and $4 billion by our fiscal 2028. For our enterprise operating income, we are targeting operating margins of approximately 33% to 35% annually. We intend to achieve this enterprise target as inflationary dynamics continue to revert to more historical levels as well as continuing to unlock cost savings through our productivity initiatives which are businesses discussed at length, but we continue to drive at a corporate level.

Executing optimized marketing plans that support incremental investments in marketing, and at the same time, shift those investments toward higher growth areas that best connect with our consumers and produce the best returns. And by driving efficiencies in other SG&A expenses across both businesses relative to net sales as we continue to deliver top line growth in excess of inflation and any additional investment required to support that growth.

These efforts will help us offset the more normalized inflationary headwinds we expect to face and the ramp-up in depreciation, which is primarily associated with our beer business capacity expansion.

As noted, we are working on delivering efficiencies at the corporate level. That being said, we do anticipate annual increases in the low single to mid-single digits in corporate expenses from continued modest and targeted investments in technology and digital capabilities to support our growth initiatives and our productivity improvements.

And by supporting our businesses and attracting, maintaining and developing top talent, we plan to continue to invest in our people as they are key to the success we've had in the past and are critical to our future success. With those factors combined, our 33% to 35% operating margin target, is expected to provide an operating income uplift of $1.3 billion to $1.8 billion by fiscal 2028.

So now let's move through the rest of the P&L. We anticipate our effective tax rate to be consistently between 20% to 22%. This marginal increase relative to our fiscal 2024 tax rate guidance reflects forthcoming adjustments due to current tax legislation. Obviously, our expected tax range is subject to any future changes in policy.

We anticipate our interest expense to be between $450 million and $600 million as we work towards our targeted leverage ratio and manage our debt in what is currently an elevated interest rate environment relative to recent years.

We expect approximately $40 million of annual noncontrolling interest adjustments primarily from our glass plant joint venture with Owens-Illinois. Additionally, we expect the benefit from our share repurchase plans, which I will discuss in more detail shortly. As a result, we are targeting our diluted earnings per share to grow low double digits annually over the medium term. We believe reestablishing an earnings per share growth target will help our existing and future shareholders understand the strength of our commitment in continuing to consistently deliver leading performance and value creation.

Moving from our P&L to cash flows. The successful execution of our strategy and our ability to drive strong earnings growth has supported strong cash flow generation year-over-year, which we believe will continue over the medium term. Looking back a few years, from fiscal 2020 to fiscal 2023, we generated nearly $11 billion in operating cash flow. Based on the targets I just outlined, we are anticipating low double-digit operating cash flow growth from this fiscal year to fiscal 2028 ultimately leading to cash generation of approximately $15 billion to $17 billion in operating cash flow from fiscal 2024 to fiscal 2028.

As discussed previously, our capital allocation priorities shifted under our current leadership team. From fiscal 2017 through fiscal 2019, we made a series of significant acquisitions that required a substantial amount of debt.

In fiscal 2020, we shifted our priorities. First, we aim to address that incremental debt and get ourselves into a net leverage ratio of 3.5x. Second, we set a goal to deliver incremental cash returns to shareholders through share repurchases and lifted our dividend payout ratio to the upper end of our prior 25% to 30% target. When combined, these would deliver at least $5 billion of cash back to our shareholders. Third, we recommitted to deploying significant capital to incremental brewing capacity to support the growth of our beer business. And finally, we deprioritized M&A and refocused it on targeted tuck-in additions to fill in portfolio gaps.

So how do we perform against those commitments? Well, we more than achieved our leverage target getting very close to our current target of 3 times. We over-delivered on our $5 billion cash return goal completing the program early and exceeding it by nearly $500 million. And we only made a handful of tuck-in acquisitions, notably my favorite neighbor, Lingua Franca and Austin Cocktails, all of which have bolstered our portfolio and have been delivering outsized sales growth.

Now as all of you are aware, in fiscal 2023, we took out some incremental debt to support the Class B common stock reclassification approved by our shareholders. This added debt took us back to 3.6x leverage temporarily, and we have since gotten our leverage ratio back down to 3.2x.

Now as we look at our capital allocation priorities moving forward, they remain largely the same, but we are further advancing the underline commitments against each priority. We continue to target a strong balance sheet that supports our investment-grade rating, and we are working toward a net leverage ratio of 3x, which we expect to be achieved within fiscal 2025. We expect to maintain a dividend payout ratio of 30%, supporting continued growth of our dividend per share in line with our earnings expectations. We plan to invest approximately $5 billion in growth and maintenance CapEx from 2024 to fiscal 2028 across both our beer and Wine and Spirits businesses. We expect to execute share repurchases with the $2.8 billion currently authorized by our Board. And we will maintain a disciplined M&A process with strict criteria when assessing any potential tuck-in opportunities.

Of course, behind our capital allocation priorities and goals is a considered approach to determine the best use of our cash flows. This approach seeks to balance near-term and longer-term considerations across all potential uses of cash. For example, if we were to see a near-term dislocation in our share price, we would consider accelerating share re-purchases and achieving our net leverage ratio slightly later than previously anticipated. Obviously, this is a hypothetical example to illustrate that our uses of cash are ultimately anchored on delivering the highest value and returns for our shareholders. While contin-uing to uphold our targets to ensure we continue to deliver that value and those returns in a disciplined and balanced manner.

With that, let's discuss each of our capital allocation priorities in a bit more detail. We continue to value our investment-grade rating given the benefits in access and cost of capital it provides. As noted earlier, we are targeting a net leverage ratio of 3x. This is a 1.5 turn reduction when compared to our 4.5x leverage ratio that we had in fiscal 2019, which included our investment in Canopy and when we supported larger scale M&A. In fact, we maintained a leverage ratio near 3x up to our share reclassification, which I said, took place during the fall of fiscal 2023.

So we are confident in our ability to achieve our 3x target given that trajectory and the fact that we've operated comfortably at that leverage ratio before.

Our approximately 30% dividend payout ratio has historically been aligned with our peer average. As we look ahead, this payout ratio is also expected to be competitive relative to the S&P 500 average, providing consistent returns and remaining an attractive option within the broader market. We believe our dividend to be an important part of value proposition for many of our shareholders. And its alignment with our earnings through our payout ratio goal supports expected annual increases given our low double-digit EPS growth target.

We also know how important it is to invest in the organic growth of our business to support our broader expectations. Therefore, we are planning to spend approximately $5 billion from fiscal 2024 to fiscal 2028 from these opportunities. As we noted earlier, we now expect approximately $4 billion of that total to be allocated towards our beer business. This planned CapEx is going to support our brewery capacity expansions across our existing facilities as well as the construction of our new brewery at Veracruz.

As the beer team shared, these investments will support our expected growth as well as enable redundancy to navigate periods of unanticipated elevated demand and more expedited recoveries from unexpected external disruptions across the supply chain.

Regardless of these capacity investments, we will continue to target additional opportunities for increased productivity to unlock incremental capacity from our existing footprint just as we did recently with the nearly 3 million hectoliters of additional volumes delivered across our breweries through efficiency actions.

As we move forward, our overall CapEx spend is expected to significantly decrease as a percentage of net sales, in line with the cadence of our beer business investments, which are expected to peak next fiscal year. Ultimately, we expect our fiscal 2028 CapEx requirements relative to net sales to be nearly 50% what they were last fiscal year.

As noted earlier, cash returns to shareholders through share repurchases has been an important part of our capital allocation priorities since the current leadership team came into our roles. From fiscal 2020 through fiscal 2023, we made $3.1 billion in share repurchases, a key factor in achieving our cash return goal of $5 billion over that period.

Over the next 3 to 5 years, we aim to conduct meaningful but prudent share repurchases as we now have approximately $2.8 billion of authorized repurchase capacity. And as noted in the example I shared earlier, we will assess opportunities to accelerate share repurchases when we see significant dislocations in our share price.

Our fifth and final capital allocation priority is focused on M&A, which remains geared towards tuck-in opportunities. Each potential M&A opportunity will undergo a rigorous financial and strategic assessment to ensure an appropriate fit within our turn profile and our portfolio. As I discussed earlier, we shifted away from larger scale M&A in fiscal 2020, and we spent less than 4% or $440 million of operating cash flow on M&A in the last 4 years inclusive of our venture investments.

These acquisitions included my favorite neighbor, Lingua Franca and Austin Cocktails, all of which were strong plays in beverage alcohol segments and subsegments that were additive to our returns and to our portfolio. The largest of these acquisitions was approximately $100 million, which is well within our definition of tuck-in acquisitions. And of course, over the years, we have done slightly larger tuck-in transactions like Meiomi and the Prisoner, which as Bill and Robert chaired, continued to perform very well.

Regardless of the size of these tuck-ins, we always apply the same rigorous financial and strategic assessment I mentioned earlier. By looking at whether the opportunity can fill gaps in our portfolio or play in an under-indexed segment as a return profile accretive to our enterprise-wide ROIC is accretive to the base business for both top line growth and in margin and is priced in the premium or above price segments. And has the ability to scale with high-velocity products and brands that have distribution upside. It is with this set of criteria that we will ensure our future tuck-in M&A opportunities are the right fit for our business and contribute to overall returns.

As I’ve outlined today, we have a strong plan over the medium term to deliver mid- to high single-digit net sales growth, operating income margins of approximately 33% to 35% and a low double-digit diluted EPS growth. This plan is expected to lead to consistent strong cash generation, enabling us to deploy capital with discipline and prudence.

As we manage our debt and maintain an investment-grade rating, deliver returns to our shareholders through dividends and share repurchases and expand and grow our business through organic investments and tuck-in M&A.

This is what propels us forward toward contingent success. We are building on a solid history of industry-leading growth and more recently, highly effective capital allocation. And we have now shared with you our plans to make the next few years look just as good, if not better, than the last few. We hope all of you are as excited about our path forward as we are.

And with that, I want to thank you for your time and attention today, and we look forward to any questions you have as we move into our final Q&A session with Robert, Mike, Bill and myself. All right

Question and Answer

Operator
All right. Round 2, final round. Hands up. All right. Let’s start with Robert.

Robert Ottenstein
Great, perfect presentation. So at the beginning, Bill talked about how cheap the stock is relative to other algorithms. Stock is kind of where it was like 6 years ago and arguably a much better business. We gave a great presentation today, a lot of granularity in terms of growing the beer business, turnaround Wine and Spirits. Is there any reason not to get aggressive on share buyback between now and the end of the year given that very

stable cash flows, we've got the leverage down for the U.S. dollar base for the most part. It seems like an opportunity. It seems like a dislocation already.

Garth Hankinson

So Robert, I hope we took from today's presentation, we've taken from our past practices that we are pretty agile, and we get into the marketplace whenever we see a good opportunity for us to buy back a substantial amount of our shares. That's an approach that, as I say, has worked well for us in the past. It's one that's going to continue to work well. We believe work well for us going forward. And so we will exercise that agility.

And then I said during our presentation or during my presentation is we have our targets, and we believe in our targets. But we have and will adjust those targets on a temporary basis in order to deliver the greatest value we can to our shareholders.

And if there's a dislocation in our share price, we'll absolutely take advantage of that.

Bryan Spillane

Bryan Spillane, two questions. One is — ***indiscernible*** — Woodbridge — ***indiscernible*** —

Robert Hanson

Thanks for the question, Bryan. We don't actually give out direct margin guidance by brands. And so therefore, we wanted to kind of frame the total portfolio on its strategic and financial attractiveness. The way I'd think about it is Woodbridge is by far our largest case volume brands. It is margin dilutive. If you think about our portfolio, the higher-end brands deliver above the 50% GP, the mainstream brands are delivering GPs in the 20% to 30% range. And then if you think about how we're managing our marketing investments, that's why you see the framework that we presented to you.

I think the bigger opportunity we have rather than getting really specific on the individual brand margins is to look at the [CAMO] profitability growth algorithm for the brands that are in the higher end. And that's really what we use. And I think as I shared with you in the presentation, at 1/3 of the volume, Meiomi is going to be delivering 3x the CAMO WoodBridge by fiscal '28 and at 5% of the volume High West can be delivering the CAMO Woodbridge by fiscal '28.

So we are really focused on basically renovating Woodbridge, making it more modern, improving the sensory taste profile, putting into the market more compelling SKUs against this direct competitive base, managing the brand in a much more modern way than it's been managed in the past. But it's competing in a margin dilutive and declining market segment. So we want to really hold share there and get significantly more accretive growth out of the higher end of the portfolio.

Bryan Spillane
— indiscernible —

Robert Hanson
Yes. I mean, look, we've looked at Woodbridge and SVEDKA quite materially. I'm going to set SVEDKA aside because it's a slightly different answer than Woodbridge, I think I've answered the question on Woodbridge. But if you think about the whole presentation that the team and I shared, it's really driven by the shift in mix to the higher end. So we're really seeing a significant mix shift to the $15 and above bottles. We were 42% 10 years ago were 63% today, and we'll be moving that up into the mid-70s by fiscal '28. So there's a brand and product mix shift. It is growing our larger volume leading brands. So everything from Meiomi and the high teens up to our tequila portfolio at 50% growth ***— indiscernible —*** or doubling the comp on an annual basis. So we're really going to get the majority of the growth there. It's offsetting the drag of the mainstream portfolio.

Woodbridge, we don't anticipate to grow, and we still feel confident we can deliver that 1% to 3% net sales growth algorithm and confident in our 25% to 26% margin targets because we're going to be getting the growth out of the more margin accretive into the portfolio.

SVEDKA is a slightly different answer. We believe SVEDKA needs to be returned to its original roots as a higher-end accessible luxury vodka. We're going to be doing that. We're narrowing the focus to an 80 proof. We're introducing in the second largest growth in the spirits category ready to serve Martini collection. We expect those to be accretive. We're narrowing the focus of the more dilutive flavor offerings. And while it's not going to be immediate, we think that once we get through the renovation on SVEDKA, it can return to high single-digit to low double-digit growth over time.

Bryan Spillane

And in regard to clarification of EPS algorithm low double digit…

Garth Hankinson

Yes, I'd say like, look, if you look at our EPS growth algorithm and then you look at – you take the ranges in which we've given you, you'll see with the lion's share of where our growth is going to come from. As it relates to EPS, but certainly, it takes into account everything that we outlined today takes into account the top line volume growth or top line net sales growth, which over this period of time will be the biggest contributor, but it also takes into account margin improvement we're going to see in both of our business from where we are today as well as everything we do below the line as well.

Executive

That guy in the middle there, could have left a microphone back there.

Analyst

A couple of things. First off, I mean, Woodbridge does also give you heft in the distribution channel, right? I mean you get rid of that, all of a sudden, economically not as important at Southern and RNDC. So there is an ancillary benefit that in regards to that.

Robert Hanson

Yes, 100%. We often get asked questions about the relative importance of the mainstream portfolio, would we consider divestitures in the future. The reality is – it's an important part of the portfolio for the reasons you explained. It provides us scale. It gives us fixed cost overhead leverage. And these brands, although dilutive, they generate a lot of free cash flow that has helped us invest behind the higher end of the portfolio. And it's frankly invested in the portfolio reshaping that we described as a team earlier today.

So while they are dilutive, they are important for the very reasons that you point out, and we'll continue to really fight a good fight to make sure that at least Woodbridge can hold share, and we'd like instead get a return to growth.

Analyst

And I would bet you could also make the argument that they're accretive from dry goods supply side, you're going out to the glass guys with a much bigger contract, et cetera, et cetera. I may be the only person in the room that is upset about the rigor you guys are going to be doing your M&A going forward. You're killing us here, but I totally understand that it's the right thing to be doing.

So in regards to kind of brands and where the wine business is at right now, obviously, we're going through some headwinds in regards to kind of demographic shifts, right? Boomers aging out and such like and the next generations that are coming in are coming to wine a little bit slower. But they are continuing to be interested in quality. And they're really kind of focused in many ways. I think that there's 2 areas in the U.S. that can deliver really high-quality grades at a lower cost. And you guys obviously have solved for one already, and that's Paso with my favorite neighbor. And I think that's a brilliant – and the liquid in the bottle is great, and I love the price point of that. And obviously, with the [

Dow] transaction, that area has been – that area is obviously getting the kind of forward momentum that we want.

The other area, that was Washington, right? And I know you guys are taking your licks in Washington. But with what's going on with Ste. Michelle, we're going to continue to see great quality wine coming out of there at a much lower per ton price. Have you put any thought into trying to solve Washington?

Robert Hanson

Yes. I mean, look, you pointed out an important approach that we take, and Sam talked about this of diversifying the [Tower] that we go after, the Appalachians, the ABAs, not only to diversify the portfolio and give us some protection against climate events, et cetera, but to really manage our total great input cost. I think my favorite neighbor is a great example. I want to refer back to the Prisoner Wine Company example that I provided as a playbook because we've done something quite similar with my favorite neighbor portfolio.

So when we first started discussing the – what ultimately was a minority investment that we then acquired with the founder, it was a single brand, really, it was an estate brand competing in $85 to $105 a bottle. We now have 3 brands in the portfolio with my favorite neighbor as a $50 to $65 brand and Harvey & Harriet that's competing at around $30 a bottle. So we take a very disciplined approach to portfolio segmentation. We think we have a lot of runway for growth in the higher end in our existing [Tower], both California and Oregon with the Lingua Franca transaction with brands such as My Favorite Neighbor, 121% CAGR since the acquisition date, really high growth coming from Lingua Franca as well.

We'd rather go vertical where we currently compete. If we were pursue tuck-in M&A moving forward, that not the criteria that Garth just articulated, then to expand our [

Tower], but we'll always be opportunistic. If there's an opportunity for us to source super high-quality grades at an affordable price that match the strategy. There's no reason we wouldn't take a serious look at it.

Executive

We're going to Middle left.

Stephen Robert Powers

It's Steve Powers from Deutsche Bank. Garth, a question for you. If I go back to the slide, the kind of charter the path back to 39% to 40% beer margins. If I read it right, basically, the path was SG&A. It was A&P and SG&A leverage. It implied gross margins were effectively in '28 about where they were in '23. I wanted to kind of play that back and get your perspective on the gross margins trajectory.

And as a bolt-on to that, maybe a better question for the last session, but just because you're here. Just as you think about layering on all of the new innovation on beer that we talked about. How much of – what percentage of the innovation that you have is gross margin accretive? How important is gross margin accretion as you think about new innovation in beer or wine, but just in general?

Garth Hankinson

Yes. So when you referenced the 39% to 40% margins, obviously, you're talking about our beer business. And as Tom and team and John laid out, it's not just SG&A and it's not just marketing. There's certainly – as we get into more sort of normalized interest rate environment and you look at the $300 million worth of productivity initiatives that John detailed, those all sit in cost of goods.

So certainly, that will impact gross profit margins. So it really is a mix of everything. I mean like we're using – we're deploying real discipline across all of our expenses, regardless of where they fall in the P&L. To deliver the margin structure that Tom and team laid out.

Now as it relates to what's our profit goals, if you will, for innovation. Certainly, there's a couple of ways to answer that, right? One is that we're always looking for anything that we launch to be at least neutral, right, to our overall margin profile. And that's the goal.

There's – the second to answer to that though is, as Bill articulated and Mallika articulated in their presentations, we are consumer obsessed. We want to be participating in those categories and in those segments in which there's real consumer headwinds and their scale, right? And currently, some of those segments, some of those consumer interest, if you will, are a little bit more flavored forward. And we know that historically, those have been a bit margin dilutive to our overall portfolio.

But we also know that we've added capabilities in-house to be able to offset some of those things that made those margin dilutive. And you heard John Kester refer today to the ABA facility that we've built that have coming online later this year, early next at Nava, that will help mitigate any of that margin dilution that you might see there.

So we will absolutely participating in consumer segments that have real tailwinds, even if in the short term, there could be some margin dilution, but the goal is always to be at least neutral to our margins, if not accretive.

Robert Hanson

And Garth, can I just add a point on one in Spirit. I think you look at the portfolio that was reviewed, there are brands that we launched that have been quite successful that are margin accretive. So Mi Campo is a brand-new brand that we launched, it's growing at 100% annually. We launched Unshackled within the Prisoner Wine Company portfolio in the $20 to $30 price segment, driving that a part of that 46% innovation-driven CAGR from that portfolio. Also margin accretive.

We have launched off the back of the Schrader portfolio, the #1 wine online spectators list in 2022, double Diamond. It's the most affordable currently. Not the — ***indiscernible*** — it is bubble, super margin accretive. So there's an example of new-to-world brands that we've successfully introduced but we're doing fewer, bigger and better innovations. And I'm just going to point to validate Garth's point on Wine and Spirit specifically, both Kim Crawford Illuminate and Meiomi Bright are not only growing at exceptional rate and competing in the tailwind driven category such as betterment, but they're both margin accretive to the total portfolio of those 2 brands.

Dara Mohsenian

Dara Mohsenian, Morgan Stanley. So Garth, you laid out some very specific financial goals really across the business, very helpful. But as you think about the outlook, is there areas where potentially you're excited about being towards the higher end of the range or even generating upside over time? And on the other side of things, what do you think are the biggest risk factors, either looking externally or internally to achieving those goals?

Garth Hankinson

Yes. So Dara, look, I can't say what I'm most interested in because I'm interested at the entire story, I think, is fantastic, right? I mean we really are hitting on all cylinders. And as Bill said earlier, and so as we look at those targets, we're really happy and comfortable with all of them. Certainly, the cash flow generation, the amount of cash flow that this business is going to throw off in the last few years. And when you look at that from an operating cash flow perspective, and then you look at the chart that we had in there around how our CapEx spend is going to come down as a percent of net sales over time. And so you think about the free cash flow generation.

Clearly, that's something that excites me and I think it excites the team as we want to sit back and as I articulated in my presentation, we're going to look at what are those potential uses of cash as we look forward, and we're going to balance the near term and the longer term considerations to make sure that we're delivering the best returns and generating the best value creation for our shareholders.

And so I think, like I say, it all excites me, that maybe excites me and the team a little bit more than the others, but it's all really, really exciting. And then to your question around some of the risks. And I guess what I would say is, look, when we set targets externally, whether those are the annual targets we provide every year in April or whether it's the targets that we provided today, it's just good business practice that we sit down and we pressure test those to see that we have great conviction. We have the ability to have great conviction in what we're sharing with you.

And so we feel really good about the targets that we presented today. Obviously, it is predicated a little bit on not significant prolonged shocks to the system, externalities, if you will. Obviously, if we entered into a prolonged recession or there was God forbid another global pandemic. I mean certainly, things like those could have an ability to impact what we presented today, but based on the scenario analysis that we've done, we feel really good about being able to stand up in front of you today and provide these targets.

Executive
All right. And the third thing Garth might be really excited about is that's the end of our Q&A. And now we got to move on to Happy Hour.