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Presentation

Operator

Greetings, and welcome to the Constellation Brands Q2 Fiscal Year 2026 Earnings Call. — ***Operator Instructions*** — As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Blair Veenema, Vice President, Investor Relations. Please go ahead, Blair.

Blair Veenema

Thank you, Kevin. Good morning all, and welcome to Constellation Brands Q2 Fiscal '26 Conference Call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO. We trust you had the opportunity to review the news release, CEO and CFO commentary and accompanying quarterly slides made available in the Investors section of our company's website, www.cbrands.com.

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

Before turning the call over to Bill and Garth, please keep in mind that, as usual, answers provided today will be referencing comparable results unless otherwise specified. Lastly, in line with prior quarters, I would ask that you limit yourselves to one question per person, which will help us to end our call on time.

Thanks in advance and over to your questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question today is coming from Nik Modi from RBC Capital Markets.

Nik Modi

So I just had a big picture question on volume growth. So the debate across the industry has been primarily about structural versus cyclical. But for Constellation Brands, there's a bit of more of a nuance right within the cyclical bucket. So you're dealing with the overall macro consumer slowdown but also suppressed sentiment among Hispanic consumers.

So we did some work, and it shows like there was a rapid drop off in sales volume around March, April of this year for the brands and the pack sizes that really over-index the Hispanic consumers across your portfolio. And that's right when the ICE activity started to pick up.

So the question, I guess, is this. Do you think volumes would have grown in absence of the ICE activities based on everything that you've seen and all the data that you have? And I guess, in other words, will volume growth resume when we start lapping these activities next year?

William Newlands

Yes. Thanks, Nik. The key thing, I think, around that whole question is exactly what you put your finger on, which is what is the consumer sentiment. And as you know, we are doing a monthly study of all consumers, both Hispanic and non-Hispanic. And the thing that has stood out for us is that 80% of surveyed Hispanic and non-Hispanic consumers continue to express concern about the socioeconomic environment we face. And 70% of those are specifically concerned about their personal finances, which goes right back to your point about cyclical versus noncyclical. We've got a consumer base that's pulling in a bit and they are not engaging.

At the same time, you're seeing increased loyalty. Our loyalty is up with Corona in the general market. Our loyalty is up with Hispanic consumers for Modelo. A lot of people ask the question about Gen Z often. We have twice the share of Gen Z as part of our overall mix versus the industry average. So we're sitting in a good spot as the consumer turns around and gets more comfortable with where they are. But at the moment, there's just a tremendous amount of concern about socioeconomic issues really across the board, and our view is that's the significant thing that's been challenging both for us and for the category in general.

Operator

Next question is coming from Nadine Sarwat from Bernstein.

Nadine Sarwat

I'd like to touch on, on CapEx. So you cut your top line guidance last month. You have not cut your GAAP CapEx guidance. Can you comment on the rationale behind that? And is there scope to cut CapEx for years beyond this fiscal year given the weaker top line?

Garth Hankinson

Nadine, thanks for the question. And let me try to answer that, and there is a little bit of a near-term and a long-term answer there. So first of all, consistent with our capital allocation priorities, we're going to continue to invest in the long-term growth in our business. And despite the near-term headwinds that Bill just highlighted, which we see as being primarily cyclical in nature, we're confident in the longer-term growth trajectory of the portfolio. So we still believe that we need to invest in incremental capacity.

Again, the answer is a bit nuanced. As we look at FY ’26, we didn’t adjust CapEx for FY ’26 because, as we discussed last month, much of what you incur from a CapEx perspective in a fiscal year is related to longer lead items. And so those are sort of committed dollars, if you will. As we look beyond FY ’26, however, even though we do have confidence in the longer-term trajectory of the portfolio, we are being very mindful in looking at ways that we could slow down or avoid CapEx if possible. I don’t have anything to share with you on that. As we said last month. As it relates to anything beyond FY ’26, we’ll cover off on that later this year as we give guidance for FY ’27.

Operator

Next question today is coming from Rob Ottenstein from Evercore.

Robert Ottenstein

Great. I just want to get a little bit more sense about what you mean by seeing more loyalty for Corona and Modelo. And particularly Corona, if we just – from the outside, without your data, Corona Extra is down more than Coors Light or Miller Lite, never seen that before. And Corona is more general population, I think it’s, what, 20% or 30% Hispanic. So just like to understand what you’re seeing in terms of loyalty.

And perhaps connected to that, very interesting movement within the Corona portfolio, right, with Corona Familiar doing actually extremely well and maybe actually a larger brand than we may think. So maybe give us a little bit of sense of how big Corona Familiar is, what you’re seeing within the Corona portfolio, and what’s the data that’s telling you about increased loyalty for Corona.

William Newlands

Sure, Robert. As you would expect, we measure our brand health metrics consistently over time and analyze what the intent to buy is, what the purchase intentions are for all of our brands and businesses. That’s where we begin to talk about brand loyalty, what first choice consumers would have in buying within our franchise. Now as you point out, while Corona Extra has been somewhat challenged recently, the broader family has done very well.

Corona Extra provides an exceptional halo for the overall brand family. Familiar is doing extraordinarily well and one of the top share gainers in the category. And Sunbrew, as you probably know, is the #1 new brand in dollars and the #4 share gainer overall in the category this year. So Corona Extra continues to provide the kind of halo for us for the broader market that has been very valuable for the overall franchise of Corona.

You'll also notice as an example, Corona has been the focus on Major League Baseball. If you watch any of the playoffs, you probably would have noticed that Corona has been all over the baseball playoffs as the official import beer of Major League Baseball. So we continue to feel that Corona Extra is going to be an important part of our business going forward. But it also, as you note, really is a tremendous halo for other SKUs within the franchise.

Operator

Next question is coming from Dara Mohsenian from Morgan Stanley Investment Management.

Dara Mohsenian

So Bill, I just want to return to the first question. In your response to the question and prepared remarks, you continue to emphasize that the recent beer depletion weakness you think is caused more by macro factors. Certainly understand there's a big macro component, but you don't seem to attribute much of it to other more secular factors on the beer category, including health and wellness particularly with GLPs, cannabis substitution, lower consumption from younger consumers than past generations.

Just how much impact do you think you're seeing from factors beyond the macro component? And I know you emphasized your strong brand equity and your share gains, but these factors do seem to be impacting the beer category more broadly. So just wanted to understand your thought process there. Has your thinking changed at all on those nonmacro sort of drivers as you look at the trends in recent months?

And then if I can slip it in part B, just the corporate response to the weaker top line growth we're seeing. Can you talk about strategy tweaks to drive top line growth within a tougher environment? And any opportunities on further productivity beyond what you've already done as you think going forward here?

William Newlands
Sure. We continue to feel that the structural element is relatively minor in the scheme of things versus the cyclical element. As we've covered numerous times now, there just isn't a lot of evidence that GLP is having much impact whatsoever. I think cannabis could be as you go forward, to be frank, because as consumers are constrained about their spending patterns, they make choices as to where they spend their discretionary funds. But again, today, that's also relatively minor in the scheme of things.

Part of what you're seeing with our work in – Corona Sunbrew is a great example, is going after a younger legal drinking age Gen Z consumer. Part of what we observed is consumers, particularly around spring break, were mixing orange juice and Corona. Our view was we could do something much better than that in real time, which we did. And it's part of the reason why that is the #1 dollar SKU this year and the #4 share gainer in the category.

Relative to your question about the top line, one of the things that you historically have seen in other downturns within categories is that some organizations pull back on their marketing spend. We have no intention whatsoever to do that. In fact, in many respects, we're spending more than we ever have. You've probably seen, as I mentioned on the prior question, Corona's presence in Major League Baseball. Modelo with the NFL and with College Football has been very aggressively positioned. And Pacifico is the #1 voice in digital.

So I think the important point to all of that is we're continuing to invest in the long-term success of our business because we recognize, at some point, some of these socioeconomic elements will ease and we'll be in a great position to return to more traditional growth profiles that we've seen in the past. Even in this tough environment, we continue to gain share in the market and have been the #1 share gainer. So hopefully, that answers – that was a complex set of questions, but hopefully that answers them.

Operator

Next question is coming from Bonnie Herzog from Goldman Sachs.

Bonnie Herzog

So I had a question on margins. I'd love to hear more color on the beer op margin expansion in the quarter, I guess, as well as key headwinds to margins in the back half considering your guidance implies a decent step down versus 1H.

Garth Hankinson

Yes. Thanks, Bonnie. Look, I mean, I'd say we feel pretty good about the margin profile that we laid out last month in terms of what our expectation is for the year. If I think about all the elements to your question there, let me just start by talking about headwinds for the second half.

First of all, the second half of the year, as you know, is always kind of our lower volume year. And even though we changed guidance for the full year, that doesn't change our expectations for how the first half of the year comes in versus the second half of the year from a volumetric standpoint. And as you know, in the second half of the year, that's, as I say, the lower volume half. It's also when we do some of our maintenance. So just traditionally, that's going to be when we have our lowest margins of the fiscal year.

As I think about, again, sticking on margin, the headwinds that we noted last month still remain. We have about 100 basis points of margin headwinds related to fixed costs and incremental tariffs. We have about 60 basis points related to, as Bill just mentioned, keeping our marketing investment in line. Oh, by the way, I misspoke just now. There's 100 basis points with fixed overhead and then there's another 60 points on incremental margins. So those are some pretty big headwinds. They get offset a little bit by some lower comp and benefits in the second half of the year, but that really is the margin profile for the full year.

Operator

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

Christopher Carey

Garth, just a follow-up. Are you seeing a pickup in inflation in the back half? Or is that specifically around the seasonal volume assumptions? Just to clarify something on Bonnie's question.

But then the question that I had today was actually around the Wine and Spirits margins. I think going to the second half of the year, you need to believe that these margins are going to turn positive, more than a little positive to get to the full year guidance. So what do we have to believe in improvement from the first half into the back half to see that level of improvement to get to that full year outlook, maybe some of the key drivers?

And then as you think about going into fiscal '27, there was an expectation that this business could return to a low 20s operating margin, which seems to be embedded in consensus expectations. Is that still the right way to think about it? And again I would ask it in a similar vein as the back half of this year. What do we have to believe that, that outcome of substantial margin improvement in fiscal ’27 is achieved?

Garth Hankinson

Sure. So just on the first question related to the beer margins as a follow-up to Bonnie’s question, we’re not really seeing any tick up in inflation in the second half of the year. So really it’s just the drivers that I outlined.

As it relates to Wine and Spirits for this fiscal year and the improvement that you’ll see in the second half of the year, a couple of things that are going on there which make the full year and certainly the first half of the year a bit messy, if you will. So first of all, the converse of what I laid out for beer is true for Wine and Spirits, which is the bulk of our volume and sales occur in the second half of the year. So we will see benefits from additional volume in the second half. And that also tends to be when you see vintage releases related to our DTC business, which tend to lead to higher sales and higher margins.

And then back to the messiness of the first half of the year, as we laid out at the beginning of this fiscal year, there are a number of factors driving performance this year specific to the first half related to distributor payments as well as some post-transaction inventory trips between ourselves and with our distributor partners. And therefore, that’s what’s made the first half of the year sort of look like it is and why we feel confident that we can turn that in the second half of the year and achieve the operating profit that we laid out in April.

William Newlands

And just to add on to that. We made clear at the beginning of the year that the focus in the Wine and Spirits business this year was to get the top line in line and to beat the market. We have now beaten in the market for 6 straight months. Our business in Q2, very similar to Q1 on an apples-to-apples basis, was up 2% driven by Kim and Mi CAMPO. Mi CAMPO, you may remember, was a brand we started from scratch several years ago.

And the 12-week numbers in Circana show Ruffino up 2 points, The Prisoner up 4, Unshackled up 11 and Harvey & Harriet, up roughly 23. So while we're not going to give any specific guidance yet for fiscal '27, I think we're very pleased with the development of the top line in the Wine and Spirits business. And we've returned that business to a strong share gaining position and have been presenting those results for the last several months. So we feel pretty comfortable with how that is developing and how the team has executed against that strategy.

Operator

Next question today is coming from Andrea Teixeira from JPMorgan.

Drew Levine

This is Drew Levine on for Andrea. I wanted to ask on the beer inventory rebalance, maybe if you could provide some context on inventory on hand to distributors now versus before the rebalance and what gives you confidence that this was sort of more of a onetime event, I guess, rather than something that we should be more concerned about going forward.

And with that visibility that ships and depletes, I think the guidance is to largely track in second half. I think typically there's a bit more depletes second half versus first half. So just any comments on visibility to that.

Garth Hankinson

So look, I can start and then Bill can weigh in. So first of all, the ship/dep true-up that happened in Q2 related to our beer business was a result of a couple of things. One was that, as typical with every year, we tend to ship in more in Q1, Q2 ahead of the key summer selling season. So that's just normal operating procedure. This year, as we went through the summer selling season, the takeaway wasn't in line with expectations. Therefore, distributors had a little bit more than expected as we exited this summer.

Now the second thing that drove it is, the ship/dep true-up, is that again we typically overship in the first half of the year to ensure that there's product on the shelves. And then there's a little bit of rebalancing that occurs in the second half of the year, usually in Q3. And so we pulled that rebalancing into Q2 versus Q3. So that's really what drove it. As we sit there and look at inventory levels with distributors, they're at a good spot right now. We feel good about where our inventory levels are relative to where they are historically.

And I think it's important for us to note that the rebalancing of inventories really occurred strictly with distributors. There's been no retailer destocking. We continue to gain PODs in shelf space. We have very good confidence in our ability to continue to generate significant shelf share gains as one would expect for a portfolio that's growing, as Bill highlighted before, in 49 out of 50 states and with the #1 beer brand by dollar sales. So we feel good about where we are for our inventory levels, and that's why we have confidence that for the balance of the year, shipments and depletions will be aligned with one another.

Operator

Next question is coming from Bill Kirk from ROTH Capital Partners.

William Kirk

So price pack architecture was a big focus before this recent deceleration. So I guess how has the deceleration impacted the plans for different pack sizes and price points? And maybe if you had been further along in those price pack architecture plans, do you think depletions performance would have been better?

William Newlands

Well, price pack architecture is something that we've said we're going to spend a fair amount of time on. If we had known all the socioeconomic issues, would we have gotten that out sooner? I hope the answer would have been yes. But the reality is this is a good long-term play for the business. Many of you have heard us talk before, we think there are some exceptionally good businesses at putting that together, meaning when you go in a store, you have an opportunity. No matter how much money you have to spend, you have a product available to you.

Our focus on price pack architecture and smaller sizes and things of that ilk make sure that we would have something that our consumer would be able to buy depending on what they have available to them. So we're working aggressively on that in a number of fronts and with a number of brands. And that process is going to continue because we think that's not only important now, but that's also important for the long run as well.

Operator

Next question is coming from Filippo Falorni from Citigroup.

Filippo Falorni

So I wanted to ask first on the beer margin and beer cost savings. Particularly, you realized $65 million in cost savings in Q2, $105 million in year-to-date. Any sense of what's the target for the year? And if you can give a little bit more color on the opportunities there on the beer cost saving front.

And then just a follow-up on the prior question. On tariffs, can you give us a sense of how much you realized in the first half in terms of tariff headwinds and how much to expect for the balance of the year?

Garth Hankinson

Yes. So just on the cost savings. First of all, I'd say that this is just – we continue to reap the benefits of this evolution from being a builder to an operator. As you highlighted, since our Investor Day a couple of years ago, we've delivered over $500 million worth of cost savings. And again as you noted, so far this year, we've delivered over $100 million in savings.

We continue to find ways to make our operations more efficient. A lot of that so far is focused on supplier and sourcing optimization and material and cost innovation. Included in that would be our move to 60-foot railcars and our double stacking within railcars as well as a big initiative around suppliers and terms, if you will. So this is going to continue to be a focus for us over time. We continue to think that there will be opportunities for us in logistics and manufacturing optimization.

We don't provide quarterly or annual guidance related to our cost savings initiatives, but we will continue to provide updates on a quarterly basis once we achieve those savings.

Operator

Next question is coming from Carlos Laboy from HSBC.

Carlos Alberto Laboy

Bill, maybe you can go back a little bit and talk to us about the brand positioning of Corona itself. How might you be refreshing or tweaking it? And the reason I'm asking the question is because we've had over 40 years of beach rest and relaxation.

And I'm wondering, has that become too sedentary an interpretation of beach for a premium beer consumer that's turning to more active lifestyle positioning, so for example, Michelob ULTRA, right? And even in other countries where the Corona brand is doing very well, it's sort of been reinterpreting beach more as an active lifestyle and as a regeneration concept. What are your thoughts on how you tweak that brand if it needs to be?

William Newlands

So we're going to start – we didn't answer the last half of the last question. Garth is going to cover the tariff, and then I'll come back and answer your question, Carlos.

Garth Hankinson

Yes. So just on the tariffs, just to be clear on that, right? So in our beer business, we're expecting the tariff impact to be about $70 million this year and on the wine business for that to be about $20 million. I would say in terms of how that occurs throughout the year, I mean, that will largely track volume. So that's the way to think about the impact on a half year-to-half year basis.

William Newlands

So progressing to the current question relative to Corona. You may have most of the evolution this year of the Corona advertising proposition to really return to the focus being on the beer. I would argue that we probably got a little too celebrity heavy for a window of time. And we brought that Corona essence right back to where its iconic value has been, which is the beach.

Now the beach lifestyle, I would argue, fits into many things that consumers are looking for today. They're looking for refreshment, That's, first and foremost, what Corona is known for. They are looking for things that are different in experimentation, particularly younger consumer. I'd say Sunbrew is a great example of us playing right into that speech and attitude. And that goes right to a more active lifestyle that Corona Sunbrew has been presented against.

So I think the important part for this is one of the things that both Corona and Modelo and currently Pacifico is developing is we haven't flip-flopped our positioning over time.

Many organizations have a tendency to flip-flop their positioning every couple of years whenever there's a change of brand management. Our approach has not been that. Our approach is to stay focused on what we feel are the strong essences of those brands with some minor evolution as part of the marketing development.

And I would argue Sunbrew is a great example of where we can leverage that sort of beach lifestyle and refreshment value of Corona Extra into a new and exciting piece of business for us in the form of Sunbrew.

Operator

Next question today is coming from Kaumil Gajrawala from Jefferies.

Kaumil Gajrawala

I'd like to follow up on two questions. The first is you have these obvious economic challenges in addition with Hispanic consumer. If you're twice the share with Gen Z, Gen Z also has twice the amount of unemployment. It sounds like your responses to what to do is to keep up on marketing and such.

But is there anything you're looking to do to make it more affordable, get them to go back out? Just not necessarily on the marketing and the branding side, I think it sounds fine there, but rather what can you do about it if they don't have as much money, they're not as willing to go out?

And then the second question on margins. I get the 160 bps of sort of natural drag, which you talked about. But the split between depletes and shipments isn't expected to be nearly as substantial. So I'm just curious why the margin guidance is still maybe a bit lower than we would have guessed given the beat this quarter.

William Newlands

Sure. Why don't I take the first half. Garth, you can take the second. Relative to the whole question of affordability with where – when consumers are somewhat constrained, you probably all are quite aware, we have repositioned Oro, Modelo Oro because our belief is the light beer comes is looking for a bit of a different value proposition than it would be for core Modelo as an example. We've done the same now with Premier, and we're positioning that again at a somewhat lower price point from where those have been historically.

We believe those are going to be valuable. First of all, it speaks to where the consumer of high-end light beers want to spend and at the price point they want to spend. And I think that's going to position us well. Early days on Oro, which started earlier, have been quite positive. And we're pleased to see that development both in terms of consumer takeaway as well as in terms of our ability to get more features and displays against that business.

The last thing I would say, and it relates to one of the prior questions, is the price pack architecture. We briefly touched on that. But having the opportunity for the consumer who is financially constrained to find one of our iconic brands at a price point which they can afford at the current time is an important part of why price pack architecture is one of our key focuses now and will be going forward.

Garth Hankinson

Yes. And as it relates to the margin profile, just you've reiterated what we talked about earlier just around the first half versus the second half, second half always being a lower margin profile as it relates to lower volume through our breweries as well as that's when we do our normal maintenance CapEx.

Operator

— *Operator Instructions* — Our next question today is coming from Kevin Grundy BNP Paribas.

Kevin Grundy

I wanted to ask about the suitability of the 39% to 40% beer operating margin target. I think there's a lot of questions among investors about that and the sustainability of it. Very clear, I guess, in terms of positioning of management in terms of it's cyclical and volumes are going to come back. But what if they don't? Like what if volumes stay down low single digits?

And a couple of important points of context here. I think for a really long time, as you guys are well aware, volumes are outstanding, up high single digits. There's a certain degree of operating leverage in the business that you're able to sustain the 39% to 40%. But now it's down and potentially it could stay down. And I think there was a worry over a long period of time, also as you guys are well aware, it was a constraint on the multiple. And that is the weak volume trends in the category, which had been in decline for the better part of 15 years.

And there was always a worry that you're going to get this mean reversion for Constellation, how long can they continue to gain share. So that's all kind of a big wind up for where we are. Category volumes are down mid-single. You guys are doing better than that and the pace of share gains have slowed. But what is the – how plausible is it that you can sustain that level of margin if you're going to be facing year-after-year operating deleverage of volumes down sort of low single digits? So sorry for all of that, but I appreciate your thoughts.

Garth Hankinson

No, thanks for the question. Right. So look, 39% to 40% operating margins have been best-in-class. And even where we're going to be this year with some deleveraging, we'll still have best-in-class operating margins in all beverage alcohol, certainly within beer. As we think about the impact going beyond FY '26, I mean, I think we've been really clear is that we're not in a position where we want to give guidance beyond FY '26 at this point. We want to see how the macroeconomic and socioeconomic conditions play out and then see how the consumer responds to that.

And then we'll have a better sense for where margins go from here. Obviously, there are multiple things that will go into our margin profile, inclusive of depreciation that comes online with some of the investments that we've made and we'll make. As I mentioned earlier, we're looking at ways to – or we're reviewing our footprint, both our current footprint and our expected footprint, to see what the opportunities are there. We have a robust savings agenda every year that help margins and certainly offset things like inflation.

Again, we do think that we'll return to growth and that will be beneficial for margins going forward. So there are a lot of things. The normal headwinds and the normal tailwinds should be available to us going forward. But we'll provide more color on where we think margins are as we go through this year and, again, see how the environment plays out and how the consumer responds.

Operator

Next question is coming from Chris Pitcher from Rothschild & Co Redburn.

Chris Pitcher

Can I ask a question about the Wine and Spirits in the second half? I mean, it's obviously quite difficult trying to compare against the base that's disrupted by the divestments. But Q3 last year was a big destocking quarter. And based on the positive depletions in the current quarter, is it a fair assumption to assume that inventories are at a good level at your wholesalers, and therefore, you could see quite a benefit in the third quarter just from a normalization of that destocking?

William Newlands

Yes. Our inventory levels in our Wine and Spirits business are in a quite a good spot. Part of what you heard Garth speak of earlier, which was some of the distributor alignment after the divestiture, part of what we focused our attention on is to getting and making sure that our inventory levels of our ongoing business were in the right spot. And they are. Again, our focus at this point – so I don't think inventory is going to be an issue going forward in the least.

But we're very focused on continuing to win in the market, as we have for the last several months, based on the strong performance of some of our critical brands like the Prisoner and Kim Crawford and Ruffino and Mi CAMPO in particular. And that's really going to be the continuing focus of that business as we said it would be at the beginning of this fiscal year.

Operator

Next question is coming from Robert Moskow from TD Cowen.

Xin Ma

This is Victor on for Rob Moskow. I want to ask about the feasibility of the 1% to 2% pricing algo. Given the macro pressures around the Hispanic consumer, are these price increases more in low Hispanic markets? And also on the negative mix impact from the prepared remarks, could you give us some more color on what this was from? Could this be from Corona Familiar's strong demand and the brand's larger bottle size?

William Newlands

So our expectation around pricing is what we have always done, which is we look at it SKU by SKU, market by market. And we still expect 1% to 2% to be what our overall delivery will be over the course of this fiscal year. Again, a lot of that goes right back to what we've said before, which is there are pockets of opportunity and we go after those pockets of opportunity.

I think a great example, and I'd be remiss if I didn't point this out, that as Garth mentioned earlier, Modelo Especial remains the #1 top-selling beer by dollars in the United States by tracked channels. It's at a roughly 10% share, and that's 2 full share points ahead of the next largest brand. Some of that also translates over into the on-premise. And the on-premise has gone from #5 to #2 in terms of draft.

So again, those kinds of things where you have that strong brand equity allows you to look specifically on a market-by-market basis and get to that 1% to 2% algorithm that we've consistently talked about. As you would expect, we always look at, is the market available to us? And we will do the right thing on a market-by-market basis no matter what. But we still believe that 1% to 2% is sort of the algorithm that we expect to remain within.

Operator

Next question is coming from Chris Barnes from Deutsche Bank.

Christopher Barnes

I just wanted to follow up on your depletions expectations for the second half. I appreciate the 1% to 2% comment on pricing and your expectation for shipments and depletions in absolute cases to track closely. But that seems to imply a pretty material step-down in the second half in depletions growth. So could you maybe unpack the drivers there?

William Newlands

Yes. We don't give forward expectations on a quarter-by-quarter basis, but here's what we'd say. We've seen unprecedented volatility and there's very mixed results.

One of the things that we track very carefully is ZIP code data. And the results that you are seeing in high Hispanic ZIP code areas is significantly worse than what you see in the general market. We've seen some positive uptick in some of our top 5 states within the general market, where the general market ZIP codes are a higher proportion of the overall consumer base.

So we're cautiously, and I would stress that word again, cautiously optimistic that we've hit the bottom here. But the volatility, as I said, is unprecedented and the results are very mixed. The state of California has been the single biggest problem as some of those 4,000 calorie jobs, as we often talk of, haven't materialized to the rate that we would have expected.

So part of that question is going to be, will some of that construction opportunities rein-vigorate? Because that's good for the beer business and that's particularly good for us given our strength in that particular market.

But all in, we don't expect a radical change nor have we projected, based on our overall guidance, a radical change in the back half of the year.

But we're going to watch that very closely and see if there's any improvement in the volatility that's been going on in the overall marketplace over the last several months.

Operator

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